

WINTRUST FINANCIAL CORP

Form 10-Q

November 10, 2008

**Table of Contents**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2008**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 0-21923

**WINTRUST FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Illinois

36-3873352

(State of incorporation or organization)

(I.R.S. Employer Identification No.)

727 North Bank Lane

Lake Forest, Illinois 60045

(Address of principal executive offices)

(847) 615-4096

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock no par value, 23,728,784 shares, as of November 6, 2008

**TABLE OF CONTENTS**

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>ITEM</u></b> <b><u>1.</u></b> <u>Financial Statements</u>	1-24
<b><u>ITEM</u></b> <b><u>2.</u></b> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25-57
<b><u>ITEM</u></b> <b><u>3.</u></b> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	58-59
<b><u>ITEM</u></b> <b><u>4.</u></b> <u>Controls and Procedures</u>	60
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>ITEM</u></b> <b><u>1.</u></b> Legal Proceedings	NA
<b><u>ITEM</u></b> <b><u>1A.</u></b> <u>Risk Factors</u>	61-62
<b><u>ITEM</u></b> <b><u>2.</u></b> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	62
<b><u>ITEM</u></b> <b><u>3.</u></b> Defaults Upon Senior Securities	NA
<b><u>ITEM</u></b> <b><u>4.</u></b> Submission of Matters to a Vote of Security Holders	NA
<b><u>ITEM</u></b> <b><u>5.</u></b> Other Information	NA
<b><u>ITEM</u></b> <b><u>6.</u></b> <u>Exhibits</u>	63
<u>Signatures</u>	64
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

**Table of Contents**

**PART I**  
**ITEM 1. FINANCIAL STATEMENTS**

*WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES*  
*CONSOLIDATED STATEMENTS OF CONDITION*

(In thousands)	(Unaudited) September 30, 2008	December 31, 2007	(Unaudited) September 30, 2007
<b>Assets</b>			
Cash and due from banks	\$ 158,201	\$ 170,190	\$ 149,970
Federal funds sold and securities purchased under resale agreements	35,181	90,964	62,297
Interest bearing deposits with banks	4,686	10,410	9,740
Available-for-sale securities, at fair value	1,469,500	1,303,837	1,536,027
Trading account securities	2,243	1,571	1,350
Brokerage customer receivables	19,436	24,206	23,800
Mortgage loans held-for-sale, at fair-value	63,570		
Mortgage loans held-for-sale, at lower of cost or market	4,828	109,552	104,951
Loans, net of unearned income	7,322,545	6,801,602	6,808,359
Less: Allowance for loan losses	66,327	50,389	48,757
Net loans	7,256,218	6,751,213	6,759,602
Premises and equipment, net	349,388	339,297	336,755
Accrued interest receivable and other assets	209,969	273,678	192,938
Goodwill	276,311	276,204	268,983
Other intangible assets	15,389	17,737	18,701
Total assets	\$ 9,864,920	\$ 9,368,859	\$ 9,465,114
<b>Liabilities and Shareholders Equity</b>			
Deposits:			
Non-interest bearing	\$ 717,587	\$ 664,264	\$ 658,214
Interest bearing	7,111,940	6,807,177	6,919,850
Total deposits	7,829,527	7,471,441	7,578,064
Notes payable	42,025	60,700	71,900
Federal Home Loan Bank advances	438,983	415,183	408,192
Other borrowings	296,391	254,434	271,106
Subordinated notes	75,000	75,000	75,000
Junior subordinated debentures	249,537	249,662	249,704
Accrued interest payable and other liabilities	124,126	102,884	89,175
Total liabilities	9,055,589	8,629,304	8,743,141

Shareholders' equity:			
Preferred stock	<b>49,379</b>		
Common stock	<b>26,548</b>	26,281	26,060
Surplus	<b>550,994</b>	539,127	532,407
Treasury Stock	<b>(122,290)</b>	(122,196)	(107,742)
Common stock warrants	<b>459</b>	459	618
Retained earnings	<b>318,066</b>	309,556	293,913
Accumulated other comprehensive loss	<b>(13,825)</b>	(13,672)	(23,283)
Total shareholders' equity	<b>809,331</b>	739,555	721,973
Total liabilities and shareholders' equity	<b>\$ 9,864,920</b>	\$ 9,368,859	\$ 9,465,114

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents***WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)*

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2008	2007	September 30, 2008	2007
<b>Interest income</b>				
Interest and fees on loans	\$ 108,495	\$ 134,578	\$ 336,251	\$ 393,722
Interest bearing deposits with banks	27	203	215	691
Federal funds sold and securities purchased under resale agreements	197	238	1,303	3,499
Securities	17,599	19,104	50,233	60,423
Trading account securities	23	27	69	45
Brokerage customer receivables	228	495	834	1,460
Total interest income	126,569	154,645	388,905	459,840
<b>Interest expense</b>				
Interest on deposits	53,405	74,324	168,697	223,949
Interest on Federal Home Loan Bank advances	4,583	4,479	13,696	13,008
Interest on notes payable and other borrowings	2,661	3,721	8,331	9,011
Interest on subordinated notes	786	1,305	2,716	3,873
Interest on junior subordinated debentures	4,454	4,629	13,643	13,887
Total interest expense	65,889	88,458	207,083	263,728
<b>Net interest income</b>	<b>60,680</b>	66,187	<b>181,822</b>	196,112
Provision for credit losses	24,129	4,365	42,985	8,662
Net interest income after provision for credit losses	36,551	61,822	138,837	187,450
<b>Non-interest income</b>				
Wealth management	7,044	7,631	22,680	23,021
Mortgage banking	4,488	(3,122)	18,120	9,095
Service charges on deposit accounts	2,674	2,139	7,612	6,098
Gain on sales of premium finance receivables	456		2,163	444
Administrative services	803	980	2,271	3,041
Gains (losses) on available-for-sale securities, net	920	(76)	(553)	163
Other	5,530	3,985	27,186	10,258
Total non-interest income	21,915	11,537	79,479	52,120
<b>Non-interest expense</b>				
Salaries and employee benefits	35,823	34,256	109,471	105,233
Equipment	4,050	3,910	12,025	11,329
Occupancy, net	5,666	5,303	16,971	16,085
Data processing	2,850	2,645	8,566	7,699
Advertising and marketing	1,343	1,515	3,709	4,106

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Professional fees	<b>2,195</b>	1,757	<b>6,490</b>	5,045
Amortization of other intangible assets	<b>781</b>	964	<b>2,348</b>	2,897
Other	<b>10,276</b>	9,137	<b>30,822</b>	26,975
Total non-interest expense	<b>62,984</b>	59,487	<b>190,402</b>	179,369
(Loss) income before taxes	<b>(4,518)</b>	13,872	<b>27,914</b>	60,201
Income tax (benefit) expense	<b>(2,070)</b>	3,953	<b>9,381</b>	20,191
<b>Net (loss) income</b>	<b>(2,448)</b>	9,919	<b>18,533</b>	40,010
Dividends declared on preferred shares	<b>544</b>		<b>544</b>	
<b>Net (loss) income applicable to common shares</b>	<b>\$ (2,992)</b>	\$ 9,919	<b>\$ 17,989</b>	\$ 40,010
<b>Net (loss) income per common share Basic</b>	<b>\$ (0.13)</b>	\$ 0.42	<b>\$ 0.76</b>	\$ 1.65
<b>Net (loss) income per common share Diluted</b>	<b>\$ (0.13)</b>	\$ 0.40	<b>\$ 0.75</b>	\$ 1.59
<b>Cash dividends declared per common share</b>	<b>\$ 0.18</b>	\$ 0.16	<b>\$ 0.36</b>	\$ 0.32
Weighted average common shares outstanding	<b>23,644</b>	23,797	<b>23,590</b>	24,322
Dilutive potential common shares		795	<b>525</b>	806
Average common shares and dilutive common shares	<b>23,644</b>	24,592	<b>24,115</b>	25,128

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents**

*WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES*  
*CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)*

(In thousands)	Preferred		Common		Treasury	Common	Retained	Accumulated Other Compre- hensive Income (Loss)	Total Shareholders' Equity
	Stock	Stock	Surplus	Stock	Warrants	Earnings			
Balance at December 31, 2006	\$	\$ 25,802	\$ 519,233	\$ (16,343)	\$ 681	\$ 261,734	\$ (17,761)	\$ 773,346	
Comprehensive income:									
Net income						40,010		40,010	
Other comprehensive income, net of tax:									
Unrealized losses on securities, net of reclassification adjustment							(4,627)	(4,627)	
Unrealized losses on derivative Instruments							(895)	(895)	
Comprehensive income								34,488	
Cash dividends declared on common stock							(7,831)	(7,831)	
Common stock repurchases					(91,399)			(91,399)	
Stock-based compensation			8,275					8,275	
Common stock issued for:									
Exercise of stock options		130	3,513					3,643	
Restricted stock awards		89	(335)					(246)	
		19	824					843	



Employee stock purchase plan								
Exercise of common stock warrants	4	181		(63)				122
Director compensation plan	16	716						732
Balance at September 30, 2007	\$	\$ 26,060	\$ 532,407	\$ (107,742)	\$ 618	\$ 293,913	\$ (23,283)	\$ 721,973
<b>Balance at December 31, 2007</b>	<b>\$</b>	<b>\$ 26,281</b>	<b>\$ 539,127</b>	<b>\$ (122,196)</b>	<b>\$ 459</b>	<b>\$ 309,556</b>	<b>\$ (13,672)</b>	<b>\$ 739,555</b>
<b>Comprehensive income:</b>								
<b>Net income</b>						<b>18,533</b>		<b>18,533</b>
<b>Other comprehensive income, net of tax:</b>								
<b>Unrealized losses on securities, net of reclassification adjustment</b>							<b>(212)</b>	<b>(212)</b>
<b>Unrealized gains on derivative instruments</b>							<b>59</b>	<b>59</b>
<b>Comprehensive income</b>								<b>18,380</b>
<b>Cash dividends declared on common stock</b>						<b>(8,487)</b>		<b>(8,487)</b>
<b>Cash dividends declared on preferred stock</b>						<b>(544)</b>		<b>(544)</b>
<b>Common stock repurchases</b>				<b>(94)</b>				<b>(94)</b>
<b>Stock-based compensation</b>		<b>7,612</b>						<b>7,612</b>
<b>Cumulative effect of change in accounting for split-dollar life insurance</b>						<b>(992)</b>		<b>(992)</b>

<b>Issuance of preferred stock, net of issuance costs</b>	<b>49,379</b>								<b>49,379</b>
<b>Common stock issued for:</b>									
<b>Exercise of stock options</b>	<b>130</b>	<b>2,959</b>							<b>3,089</b>
<b>Restricted stock awards</b>	<b>84</b>	<b>(629)</b>							<b>(545)</b>
<b>Employee stock purchase plan</b>	<b>23</b>	<b>795</b>							<b>818</b>
<b>Director compensation plan</b>	<b>30</b>	<b>1,130</b>							<b>1,160</b>
<b>Balance at September 30, 2008</b>	<b>\$ 49,379</b>	<b>\$ 26,548</b>	<b>\$ 550,994</b>	<b>\$ (122,290)</b>	<b>\$ 459</b>	<b>\$ 318,066</b>	<b>\$ (13,825)</b>	<b>\$ 809,331</b>	

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<u>Other Comprehensive Income:</u>		
Unrealized losses on available-for-sale securities arising during the period, net	\$ (1,246)	\$ (7,144)
Unrealized gains (losses) on derivative instruments arising during the period, net	615	(1,447)
Less: Reclassification adjustment for (losses) gains included in net income, net	(553)	163
Less: Income tax benefit	(75)	(3,232)
Other Comprehensive Income	\$ (153)	\$ (5,522)

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents***WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)*

(In thousands)	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities:</b>		
Net income	\$ 18,533	\$ 40,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	42,985	8,662
Depreciation and amortization	15,350	15,234
Stock-based compensation expense	7,612	8,275
Tax benefit from stock-based compensation arrangements	558	1,040
Excess tax benefits from stock-based compensation arrangements	(684)	(1,195)
Net (accretion) of premium on securities	(1,164)	157
Mortgage servicing rights fair value change and amortization, net	1,053	272
Originations and purchases of mortgage loans held-for-sale	(1,290,805)	(1,662,648)
Proceeds from sales of mortgage loans held-for-sale	1,342,456	1,710,021
Bank owned life insurance income, net of claims	(1,941)	(2,617)
Gain on sales of premium finance receivables	(2,163)	(444)
(Increase) decrease in trading securities, net	(672)	974
Net decrease in brokerage customer receivables	4,770	240
Gain on mortgage loans sold	(10,497)	(9,334)
Losses (gains) on available-for-sale securities, net	553	(163)
Loss (gain) on sales of premises and equipment, net	84	(22)
Increase in accrued interest receivable and other assets, net	(8,241)	(6,068)
Increase (decrease) in accrued interest payable and other liabilities, net	18,963	(21,207)
<b>Net Cash Provided by Operating Activities</b>	<b>136,750</b>	<b>81,187</b>
<b>Investing Activities:</b>		
Proceeds from maturities of available-for-sale securities	687,323	619,567
Proceeds from sales of available-for-sale securities	744,488	83,265
Purchases of available-for-sale securities	(1,503,619)	(400,695)
Proceeds from sales of premium finance receivables	217,834	
Net decrease in interest-bearing deposits with banks	5,724	9,519
Net increase in loans	(781,956)	(313,953)
Redemptions of bank owned life insurance		1,306
Purchases of premises and equipment, net	(23,719)	(38,114)
<b>Net Cash Used for Investing Activities</b>	<b>(653,925)</b>	<b>(39,105)</b>
<b>Financing Activities:</b>		
Increase (decrease) in deposit accounts	358,033	(291,278)
Increase in other borrowings, net	41,957	109,034

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

(Decrease) increase in notes payable, net	(18,675)	59,150
Increase in Federal Home Loan Bank advances, net	23,802	82,698
Issuance of preferred stock, net of issuance costs	49,379	
Excess tax benefits from stock based compensation arrangements	684	1,195
Issuance of common shares resulting from exercise of stock options, employee stock purchase plan and conversion of common stock warrants	2,804	3,324
Common stock repurchases	(94)	(91,399)
Dividends paid	(8,487)	(7,831)
<b>Net Cash Provided by (Used for) by Financing Activities</b>	<b>449,403</b>	<b>(135,107)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(67,772)</b>	<b>(93,025)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>261,154</b>	<b>305,292</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 193,382</b>	<b>\$ 212,267</b>

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents***WINTRUST FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS***(1) Basis of Presentation**

The consolidated financial statements of Wintrust Financial Corporation and Subsidiaries ( Wintrust or the Company ) presented herein are unaudited, but in the opinion of management reflect all necessary adjustments of a normal or recurring nature for a fair presentation of results as of the dates and for the periods covered by the consolidated financial statements.

Wintrust is a financial holding company currently engaged in the business of providing traditional community banking services to customers in the Chicago metropolitan area and southern Wisconsin. Additionally, the Company operates various non-bank subsidiaries.

As of September 30, 2008, Wintrust had 15 wholly-owned bank subsidiaries (collectively, the Banks ), nine of which the Company started as *de novo* institutions, including Lake Forest Bank & Trust Company ( Lake Forest Bank ), Hinsdale Bank & Trust Company ( Hinsdale Bank ), North Shore Community Bank & Trust Company ( North Shore Bank ), Libertyville Bank & Trust Company ( Libertyville Bank ), Barrington Bank & Trust Company, N.A. ( Barrington Bank ), Crystal Lake Bank & Trust Company, N.A. ( Crystal Lake Bank ), Northbrook Bank & Trust Company ( Northbrook Bank ), Beverly Bank & Trust Company, N.A. ( Beverly Bank ) and Old Plank Trail Community Bank, N.A. ( Old Plank Trail Bank ). The Company acquired Advantage National Bank ( Advantage Bank ) in October 2003, Village Bank & Trust ( Village Bank ) in December 2003, Northview Bank and Trust ( Northview Bank ) in September 2004, Town Bank in October 2004, State Bank of The Lakes in January 2005, First Northwest Bank in March 2005 and Hinsbrook Bank and Trust ( Hinsbrook Bank ) in May 2006. In December 2004, Northview Bank's Wheaton branch became its main office, it was renamed Wheaton Bank & Trust ( Wheaton Bank ) and its two Northfield locations became branches of Northbrook Bank and its Mundelein location became a branch of Libertyville Bank. In May 2005, First Northwest Bank was merged into Village Bank. In November 2006, Hinsbrook Bank's Geneva branch was renamed St. Charles Bank & Trust ( St. Charles Bank ), its Willowbrook, Downers Grove and Darien locations became branches of Hinsdale Bank and its Glen Ellyn location became a branch of Wheaton Bank. The Company provides, on a national basis, loans to businesses to finance insurance premiums on their commercial insurance policies ( premium finance receivables ) through First Insurance Funding Corporation ( FIFC ). In 2007, FIFC began to make loans to irrevocable life insurance trusts to purchase life insurance policies for high net-worth individuals. The loans are originated through independent insurance agents or financial advisors and legal counsel. The life insurance policy is the primary collateral on the loan and, in most cases, the loans are also secured by a letter of credit. FIFC is a wholly-owned subsidiary of Lake Forest Bank. FIFC was originally a subsidiary of Crabtree Capital Corporation ( Crabtree ), however, Crabtree has been merged into FIFC.

In November 2007, the Company acquired Broadway Premium Funding Corporation ( Broadway ). Broadway also provides loans to businesses to finance insurance premiums, mainly through insurance agents and brokers in the northeastern portion of the United States and California. On October 1, 2008, Broadway merged with its parent, FIFC, but continues to utilize the Broadway brand in serving its segment of the marketplace.

Wintrust, through Tricom, Inc. of Milwaukee ( Tricom ), provides high-yielding short-term accounts receivable financing ( Tricom finance receivables ) and value-added out-sourced administrative services, such as data processing of payrolls, billing and cash management services, to the temporary staffing industry, with clients located throughout the United States. Tricom is a wholly-owned subsidiary of Hinsdale Bank.

**Table of Contents**

The Company provides a full range of wealth management services through its trust, asset management and broker-dealer subsidiaries. Trust and investment services are provided at the Banks through the Company's wholly-owned subsidiary, Wayne Hummer Trust Company, N.A. ( WHTC ), a *de novo* company started in 1998. Wayne Hummer Investments, LLC ( WHI ) is a broker-dealer providing a full range of private client and securities brokerage services to clients located primarily in the Midwest. WHI has office locations staffed by one or more registered financial advisors in a majority of the Company's Banks. WHI also provides a full range of investment services to individuals through a network of relationships with community-based financial institutions primarily in Illinois. WHI is a wholly-owned subsidiary of North Shore Bank. Wayne Hummer Asset Management Company ( WHAMC ) provides money management services and advisory services to individuals, institutions and municipal and tax-exempt organizations, in addition to portfolio management and financial supervision for a wide range of pension and profit-sharing plans. WHAMC is a wholly-owned subsidiary of Wintrust. WHI and WHAMC were acquired in 2002, and along with WHTC are collectively referred to as Wealth Management . In February 2003, the Company acquired Lake Forest Capital Management ( LFCM ), a registered investment advisor, which was merged into WHAMC.

In May 2004, the Company acquired SGB Corporation d/b/a WestAmerica Mortgage Company ( WestAmerica ) and its affiliate, Guardian Real Estate Services, Inc. ( Guardian ). WestAmerica engages primarily in the origination and purchase of residential mortgages for sale into the secondary market, and Guardian provides document preparation and other loan closing services to WestAmerica and a network of mortgage brokers. WestAmerica maintains principal origination offices in nine states, including Illinois, and originates loans in other states through wholesale and correspondent offices. WestAmerica and Guardian are wholly-owned subsidiaries of Barrington Bank.

Wintrust Information Technology Services Company provides information technology support, item capture, imaging and statement preparation services to the Wintrust subsidiaries and is a wholly-owned subsidiary of Wintrust.

The accompanying consolidated financial statements are unaudited and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations or cash flows in accordance with generally accepted accounting principles. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report and Form 10-K for the year ended December 31, 2007. Operating results reported for the three-month and year-to-date periods are not necessarily indicative of the results which may be expected for the entire year. Reclassifications of certain prior period amounts have been made to conform to the current period presentation.

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Management believes that the estimates made are reasonable, however, changes in estimates may be required if economic or other conditions develop differently from management's expectations. Certain policies and accounting principles inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Management views critical accounting policies to be those which are highly complex or dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses and the allowance for losses on lending-related commitments, the valuation of the retained interest in the premium finance receivables sold, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and the accounting for income taxes as the areas that are most complex and require the most subjective and complex judgments and as such could be the most subject to revision as new information becomes available.

Descriptions of our significant accounting policies are included in Note 1 (Summary of Significant Accounting Policies) of the Company's 2007 Annual Report. There have been no significant changes to these policies, except as discussed in Note 2 Recent Accounting Developments, for mortgage loans held-for-sale. Additionally, during the second quarter of 2008, the Company refined its methodology for determining certain elements of the allowance for loan losses. For additional detail of the allowance for loan losses methodology, please refer to Critical Accounting Policies in Item 2 of this report.



**Table of Contents****(2) Recent Accounting Developments**

In September 2006, the FASB ratified the Emerging Issues Task Force ( EITF ) consensus on EITF Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements ( EITF 06-4 ). The EITF is limited to the recognition of a liability and related compensation costs for endorsement split-dollar insurance arrangements that provide a benefit to an employee that extends to postretirement periods. Therefore, the provisions of EITF 06-4 do not apply to a split-dollar insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company adopted EITF 06-4 on January 1, 2008 and established a liability for postretirement split-dollar insurance benefits by recognizing a cumulative-effect adjustment to retained earnings of \$992,000.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 establishes a framework for measuring fair value and requires expanded disclosure about the information used to measure fair value. The statement applies whenever other statements require, or permit, assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances and is effective January 1, 2008. The adoption of SFAS 157 did not materially impact the consolidated financial statements. See Note 11 Fair Values of Assets and Liabilities, for a further discussion of this FASB Statement and the related required disclosures.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ( SFAS 159 ). SFAS 159 provides entities with an option to report selected financial assets and liabilities at fair value and is effective January 1, 2008. The Company elected to measure at fair value new mortgage loans originated by WestAmerica on or after January 1, 2008. Since SFAS 159 was elected for loans originated on or after January 1, 2008, there was no effect to the Company's financial statements at the date of adoption. The fair value of the loans is determined by reference to investor price sheets for loan products with similar characteristics. Before electing this new statement, WestAmerica accounted for loans held-for-sale at the lower of cost or market (commonly referred to as LOCOM). See Note 11 Fair Values of Assets and Liabilities, for a more detailed discussion of fair value measurements.

In November 2007, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 109 ( SAB 109 ) Written Loan Commitments Recorded at Fair Value through Earnings. SAB 109 states that the expected cash flows related to servicing the loan should be included in the measurement of all written loan commitments that are accounted for at fair value. Prior to SAB 109, this component of value was not incorporated into the fair value of the loan commitment. SAB 109 is effective for financial statements issued for fiscal years beginning after December 15, 2007. The adoption of SAB 109 did not have a material impact to the Company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards 141(R), Business Combinations ( SFAS 141R ). SFAS 141R requires the acquiring entity in a business combination to recognize the full fair value of the assets acquired and liabilities assumed in a transaction at the acquisition date; the immediate expense recognition of transaction costs; and accounting for restructuring plans separately from the business combination. SFAS 141R is effective for business combinations occurring after December 15, 2008. Early adoption is prohibited.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact the new pronouncement will have on its financial statements.



**Table of Contents**

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ( SFAS 161 ). Effective for fiscal years and interim periods beginning after November 15, 2008, SFAS 161 amends and expands the disclosure requirements of Statement No. 133 by requiring enhanced disclosures for how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under Statement No. 133 and its related interpretations; and how derivative instruments and related items affect an entity's financial position, financial performance and cash flows. SFAS 161 only relates to disclosures and therefore will not have an impact on the Company's financial condition or results of operations.

In April 2008, the FASB voted to eliminate Qualifying Special Purpose Entities (QSPEs) from the guidance in Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities ( SFAS 140 ). In connection with the proposed changes to SFAS 140, the FASB also is proposing three key changes to the consolidation model in FASB Interpretation No. 46R, Consolidation of Variable Interest Entities ( FIN 46R ). First, the FASB will now include former QSPEs in the scope of FIN 46R. In addition, the FASB supports amending FIN 46R to change the method of analyzing which party to a variable interest entity ( VIE ) should consolidate the VIE to a primarily qualitative determination of power combined with benefits and losses instead of today's risks and rewards model. Finally, the proposed amendment is expected to require all VIEs and their primary beneficiaries to be reevaluated quarterly. The previous rules required reconsideration only when specified reconsideration events occurred. The FASB also clarified that upon initial consolidation of a variable interest entity all assets and liabilities would be measured at fair value, with any difference being recorded as a cumulative-effect adjustment to retained earnings. In July 2008, the FASB decided that these changes, if finalized, would be effective no earlier than for financial statements issued for fiscal years beginning after November 15, 2009. The FASB also decided that many of the disclosures contemplated for the proposed amendments to SFAS 140 and FIN 46R will be included in a separate FASB Staff Position, which has yet to be issued. The Company does not expect these changes to have a material impact on the Company's financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles ( SFAS 162 ). The new standard identifies the sources of accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP, and refers to these sources as the GAAP hierarchy. The new standard is effective 60 days following the SEC's approval of amendments to existing auditing standards by the Public Company Accounting Oversight Board. The Company currently prepares consolidated financial statements in conformity with the GAAP hierarchy as presented in the new standard, and does not expect its adoption to have a material impact on the Company's financial statements.

**(3) Cash and Cash Equivalents**

For purposes of the Consolidated Statements of Cash Flows, the Company considers cash and cash equivalents to include cash on hand, cash items in the process of collection, non-interest bearing amounts due from correspondent banks, federal funds sold and securities purchased under resale agreements with original maturities of three months or less.

**Table of Contents****(4) Available-for-sale Securities**

The following table is a summary of the available-for-sale securities portfolio as of the dates shown:

(Dollars in thousands)	September 30, 2008		December 31, 2007		September 30, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury	\$	\$	\$ 33,161	\$ 33,109	\$ 33,184	\$ 31,783
U.S. Government agencies	<b>318,633</b>	<b>317,842</b>	321,548	322,043	473,294	466,795
Municipal	<b>58,593</b>	<b>58,140</b>	49,376	49,127	51,169	50,543
Corporate notes and other debt	<b>39,977</b>	<b>35,730</b>	45,920	42,802	57,288	54,466
Mortgage-backed	<b>950,649</b>	<b>943,516</b>	699,166	688,846	803,765	777,943
Federal Reserve/FHLB stock and other equity securities	<b>115,267</b>	<b>114,272</b>	167,591	167,910	151,115	154,497
Total available-for-sale securities	<b>\$ 1,483,119</b>	<b>\$ 1,469,500</b>	\$ 1,316,762	\$ 1,303,837	\$ 1,569,815	\$ 1,536,027

The fair value of available-for-sale securities includes investments totaling approximately \$127.7 million with unrealized losses of \$7.3 million, which have been in an unrealized loss position for greater than 12 months. Available-for-sale securities are reviewed for possible other-than-temporary impairment on a quarterly basis. During this review, the Company considers the severity and duration of the unrealized losses as well as its intent and ability to hold the securities until recovery, taking into account balance sheet management strategies and its market view and outlook. The Company also assesses the nature of the unrealized losses taking into consideration market factors, such as the widening of general credit spreads, the industry in which the issuer operates and market supply and demand, as well as the creditworthiness of the issuer. As a result of other-than-temporary impairment reviews during the quarter and nine months ended September 30, 2008, the Company recognized \$2.1 million and \$4.2 million, respectively, of other-than-temporary impairment losses on certain corporate notes and other debt securities. The Company concluded that none of the other unrealized losses on the available-for-sale securities portfolio represents an other-than-temporary impairment as of September 30, 2008.

**(5) Loans**

The following table is a summary of the loan portfolio as of the dates shown:

(Dollars in thousands)	September 30, 2008	December 31, 2007	September 30, 2007
<b>Balance:</b>			
<b>Commercial and commercial real estate</b>	<b>\$ 4,673,682</b>	\$ 4,408,661	\$ 4,219,320
Home equity	<b>837,127</b>	678,298	654,022
Residential real estate	<b>247,203</b>	226,686	220,084
Premium finance receivables	<b>1,205,376</b>	1,078,185	1,289,920
Indirect consumer loans	<b>199,845</b>	241,393	253,058
Tricom finance receivables	<b>16,924</b>	27,719	33,342
Other loans	<b>142,388</b>	140,660	138,613
Total loans, net of unearned income	<b>\$ 7,322,545</b>	\$ 6,801,602	\$ 6,808,359

**Mix:**

<b>Commercial and commercial real estate</b>	<b>64%</b>	65%	62%
Home equity	<b>11</b>	10	10
Residential real estate	<b>4</b>	3	3
Premium finance receivables	<b>17</b>	16	19
Indirect consumer loans	<b>3</b>	3	4
Tricom finance receivables		1	
Other loans	<b>1</b>	2	2
<b>Total loans, net of unearned income</b>	<b>100%</b>	100%	100%

**Table of Contents**

Indirect consumer loans include auto, boat, snowmobile and other indirect consumer loans. Premium finance receivables are recorded net of unearned income. The unearned income portions of premium finance receivables were \$23.4 million at September 30, 2008, \$23.3 million at December 31, 2007 and \$29.2 million at September 30, 2007. Total loans include net deferred loan fees and costs and fair value purchase accounting adjustments totaling \$9.3 million at September 30, 2008, \$6.6 million at December 31, 2007 and \$7.3 million at September 30, 2007.

**(6) Deposits**

The following table is a summary of deposits as of the dates shown:

(Dollars in thousands)	<b>September 30, 2008</b>	December 31, 2007	September 30, 2007
<b><u>Balance:</u></b>			
Non-interest bearing deposits	\$ 717,587	\$ 664,264	\$ 658,214
NOW accounts	<b>1,012,393</b>	1,014,780	1,005,002
Wealth management deposits	<b>583,715</b>	599,426	563,003
Money market accounts	<b>997,638</b>	701,972	690,798
Savings accounts	<b>317,108</b>	297,586	291,466
Time certificates of deposit	<b>4,201,086</b>	4,193,413	4,369,581
 Total deposits	 <b>\$ 7,829,527</b>	 \$ 7,471,441	 \$ 7,578,064

**Mix:**

Non-interest bearing deposits	<b>9%</b>	9%	9%
NOW accounts	<b>13</b>	14	13
Wealth management deposits	<b>7</b>	8	7
Money market accounts	<b>13</b>	9	9
Savings accounts	<b>4</b>	4	4
Time certificates of deposit	<b>54</b>	56	58
 Total deposits	 <b>100%</b>	 100%	 100%

Wealth management deposits represent FDIC-insured deposits (primarily money market accounts) at the Banks from customers of the Company's wealth management subsidiaries.

**Table of Contents****(7) Notes Payable, Federal Home Loan Bank Advances, Other Borrowings and Subordinated Notes**

The following table is a summary of notes payable, Federal Home Loan Bank advances, other borrowings and subordinated notes as of the dates shown:

(Dollars in thousands)	<b>September 30, 2008</b>	December 31, 2007	September 30, 2007
Notes payable	\$ 42,025	\$ 60,700	\$ 71,900
Federal Home Loan Bank advances	<b>438,983</b>	415,183	408,192
Other borrowings:			
Federal funds purchased	<b>34,000</b>	4,223	
Securities sold under repurchase agreements	<b>260,542</b>	248,334	269,234
Other	<b>1,849</b>	1,877	1,872
Total other borrowings	<b>296,391</b>	254,434	271,106
Subordinated notes	<b>75,000</b>	75,000	75,000
Total notes payable, Federal Home Loan Bank advances, other borrowings and subordinated notes	<b>\$ 852,399</b>	\$ 805,317	\$ 826,198

Notes payable are used, as needed, to provide capital to fund continued growth at the Banks and to serve as an interim source of funds for acquisitions, common stock repurchases or other general corporate purposes. The \$42.0 million balance at September 30, 2008 represents the outstanding balance on a \$101.0 million loan agreement with an unaffiliated bank. The loan agreement consists of a \$100.0 million revolving note, which was renewed in the third quarter of 2008 to extend the maturity date to August 31, 2009, and a \$1.0 million note that matures on June 1, 2015. Beginning September 1, 2008, interest is calculated, at the Company's option, at a floating rate equal to either: (1) LIBOR plus 200 basis points or (2) the greater of the lender's prime rate or the Federal Funds Rate plus 50 basis points. Prior to the renewal of the \$100.0 million revolving note, interest was calculated, at the Company's option, at a floating rate equal to either: (1) LIBOR plus 115 basis points or (2) the greater of the lender's prime rate or the Federal Funds Rate plus 50 basis points. The loan agreement is secured by the stock of some of the Company's bank subsidiaries.

Federal Home Loan Bank advances consist primarily of fixed rate obligations of the Banks and are collateralized by qualifying residential real estate and home equity loans and certain securities. FHLB advances are stated at par value of the debt adjusted for unamortized fair value adjustments recorded in connection with advances acquired through acquisitions.

At September 30, 2008, securities sold under repurchase agreements represent \$158.7 million of customer balances in sweep accounts in connection with master repurchase agreements at the Banks and \$101.9 million of short-term borrowings from brokers.

The subordinated notes represent three \$25.0 million notes, issued in October 2002, April 2003 and October 2005 (funded in May 2006). The \$25.0 million notes require annual principal payments of \$5.0 million beginning in the sixth year, with final maturities in the tenth year. The first \$5.0 million payment is due in the fourth quarter of 2008. The Company may redeem the subordinated notes at any time prior to maturity. Interest on each note is calculated at a rate equal to LIBOR plus 130 basis points.



**Table of Contents****(8) Junior Subordinated Debentures**

As of September 30, 2008, the Company owned 100% of the common securities of nine trusts, Wintrust Capital Trust III, Wintrust Statutory Trust IV, Wintrust Statutory Trust V, Wintrust Capital Trust VII, Wintrust Capital Trust VIII, Wintrust Capital Trust IX, Northview Capital Trust I, Town Bankshares Capital Trust I, and First Northwest Capital Trust I (the Trusts ) set up to provide long-term financing. The Northview, Town and First Northwest capital trusts were acquired as part of the acquisitions of Northview Financial Corporation, Town Bankshares, Ltd., and First Northwest Bancorp, Inc., respectively. The Trusts were formed for purposes of issuing trust preferred securities to third-party investors and investing the proceeds from the issuance of the trust preferred securities and common securities solely in junior subordinated debentures issued by the Company (or assumed by the Company in connection with an acquisition), with the same maturities and interest rates as the trust preferred securities. The junior subordinated debentures are the sole assets of the Trusts. In each Trust, the common securities represent approximately 3% of the junior subordinated debentures and the trust preferred securities represent approximately 97% of the junior subordinated debentures.

The Trusts are reported in the Company's consolidated financial statements as unconsolidated subsidiaries. Accordingly, in the Consolidated Statements of Condition, the junior subordinated debentures issued by the Company to the Trusts are reported as liabilities and the common securities of the Trusts, all of which are owned by the Company, are included in available-for-sale securities.

The following table provides a summary of the Company's junior subordinated debentures as of September 30, 2008. The junior subordinated debentures represent the par value of the obligations owed to the Trusts and basis adjustments for unamortized fair value adjustments recognized at the respective acquisition dates for the Northview, Town and First Northwest obligations.

	Trust Preferred Securities	Junior Subordinated Debentures	Rate Structure	Rate at 9/30/08	Issue Date	Maturity Date	Earliest Redemption Date
(Dollars in thousands)							
Wintrust Capital Trust III	\$ 25,000	\$ 25,774	L+3.25	6.04%	04/2003	04/2033	04/2008
Wintrust Statutory Trust IV	20,000	20,619	L+2.80	6.56%	12/2003	12/2033	12/2008
Wintrust Statutory Trust V	40,000	41,238	L+2.60	6.36%	05/2004	05/2034	06/2009
Wintrust Capital Trust VII	50,000	51,550	L+1.95	4.77%	12/2004	03/2035	03/2010
Wintrust Capital Trust VIII	40,000	41,238	L+1.45	5.21%	08/2005	09/2035	09/2010
Wintrust Capital Trust IX	50,000	51,547	Fixed	6.84%	09/2006	09/2036	09/2011
Northview Capital Trust I	6,000	6,190	L+3.00	5.80%	08/2003	11/2033	08/2008
Town Bankshares Capital Trust I	6,000	6,191	L+3.00	5.80%	08/2003	11/2033	08/2008
First Northwest Capital Trust I	5,000	5,190	L+3.00	6.76%	05/2004	05/2034	05/2009
Total		\$ 249,537		5.90%			

The junior subordinated debentures totaled \$249.5 million at September 30, 2008, \$249.7 million at December 31, 2007 and \$249.7 million at September 30, 2007.

The interest rates on the variable rate junior subordinated debentures are based on the three-month LIBOR rate and reset on a quarterly basis. The interest rate on the Wintrust Capital Trust IX junior subordinated debentures changes to a variable rate equal to three-month LIBOR plus 1.63% effective September 15, 2011. At September 30, 2008, the weighted average contractual interest rate on the junior subordinated debentures was 5.90%. The Company entered into \$175 million of interest rate swaps to hedge the variable cash flows on certain junior subordinated debentures. The hedge-adjusted rate on the junior subordinated debentures on September 30, 2008, was 7.30%. Distributions on all issues are payable on a quarterly basis.

**Table of Contents**

The Company has guaranteed the payment of distributions and payments upon liquidation or redemption of the trust preferred securities, in each case to the extent of funds held by the Trusts. The Company and the Trusts believe that, taken together, the obligations of the Company under the guarantees, the junior subordinated debentures, and other related agreements provide, in the aggregate, a full, irrevocable and unconditional guarantee, on a subordinated basis, of all of the obligations of the Trusts under the trust preferred securities. Subject to certain limitations, the Company has the right to defer the payment of interest on the junior subordinated debentures at any time, or from time to time, for a period not to exceed 20 consecutive quarters. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at maturity or their earlier redemption. The junior subordinated debentures are redeemable in whole or in part prior to maturity at any time after the dates shown in the table, and earlier at the discretion of the Company if certain conditions are met, and, in any event, only after the Company has obtained Federal Reserve approval, if then required under applicable guidelines or regulations.

The junior subordinated debentures, subject to certain limitations, qualify as Tier 1 capital of the Company for regulatory purposes. On February 28, 2005, the Federal Reserve issued a final rule that retains Tier 1 capital treatment for these instruments but with stricter limits. Under the new rule, which is effective on March 31, 2009, and has a transition period until then, the aggregate amount of the junior subordinated debentures and certain other capital elements is limited to 25% of Tier 1 capital elements (including junior subordinated debentures), net of goodwill less any associated deferred tax liability. The amount of junior subordinated debentures and certain other capital elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. Applying the final rule at September 30, 2008, the Company would still be considered well-capitalized under regulatory capital guidelines.



**Table of Contents****(9) Segment Information**

The segment financial information provided in the following tables has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The Company evaluates segment performance based on after-tax profit or loss and other appropriate profitability measures common to each segment. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. Inter-segment revenue and transfers are generally accounted for at current market prices. The parent and inter-segment eliminations reflect parent company information and inter-segment eliminations. The net interest income and segment profit of the banking segment includes income and related interest costs from portfolio loans that were purchased from the premium finance segment. For purposes of internal segment profitability analysis, management reviews the results of its premium finance segment as if all loans originated and sold to the banking segment were retained within that segment's operations, thereby causing inter-segment eliminations. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates the net interest income earned by the banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. (See Wealth management deposits discussion in Deposits section of this report for more information on these deposits.) The following table presents a summary of certain operating information for each reportable segment for the three months ended for the period shown:

	<b>Three Months Ended</b>		\$ Change in Contribution	% Change in Contribution
	<b>September 30, 2008</b>	2007		
(Dollars in thousands)				
<b>Net interest income:</b>				
Banking	\$ 59,001	\$ 65,874	\$ (6,873)	(10)%
Premium finance	16,168	16,126	42	
Tricom	851	999	(148)	(15)
Wealth management	4,481	3,758	723	19
Parent and inter-segment eliminations	(19,821)	(20,570)	749	4
Total net interest income	\$ 60,680	\$ 66,187	\$ (5,507)	(8)%
<b>Non-interest income:</b>				
Banking	\$ 14,325	\$ 3,032	\$ 11,293	N/M%
Premium finance	456		456	100
Tricom	802	980	(178)	(18)
Wealth management	8,781	9,609	(828)	(9)
Parent and inter-segment eliminations	(2,449)	(2,084)	(365)	(18)
Total non-interest income	\$ 21,915	\$ 11,537	\$ 10,378	90%
<b>Segment profit (loss):</b>				
Banking	\$ 1,364	\$ 12,610	\$ (11,246)	(89)%
Premium finance	7,658	7,808	(150)	(2)
Tricom	223	355	(132)	(37)
Wealth management	2,408	2,311	97	4
Parent and inter-segment eliminations	(14,101)	(13,165)	(936)	(7)

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Total segment profit (loss)	\$ (2,448)	\$ 9,919	\$ (12,367)	N/M%
<b>Segment assets:</b>				
Banking	\$ 9,782,483	\$ 9,285,690	\$ 496,793	5%
Premium finance	1,292,416	1,316,995	(24,579)	(2)
Tricom	29,552	45,471	(15,919)	(35)
Wealth management	56,614	59,855	(3,241)	(5)
Parent and inter-segment eliminations	(1,296,145)	(1,242,897)	(53,248)	(4)
Total segment assets	\$ 9,864,920	\$ 9,465,114	\$ 399,806	4%

*N/M = Not Meaningful*

**Table of Contents**

(Dollars in thousands)	Nine Months Ended		\$ Change in Contribution	% Change in Contribution
	September 30, 2008	2007		
<b>Net interest income:</b>				
Banking	\$ 177,649	\$ 194,466	\$ (16,817)	(9)%
Premium finance	49,128	45,521	3,607	8
Tricom	2,570	2,911	(341)	(12)
Wealth management	13,771	10,017	3,754	37
Parent and inter-segment eliminations	(61,296)	(56,803)	(4,493)	(8)
Total net interest income	\$ 181,822	\$ 196,112	\$ (14,290)	(7)%
<b>Non-interest income:</b>				
Banking	\$ 55,442	\$ 24,487	\$ 30,955	N/M%
Premium finance	2,163	444	1,719	N/M
Tricom	2,271	3,041	(770)	(25)
Wealth management	28,543	28,757	(214)	(1)
Parent and inter-segment eliminations	(8,940)	(4,609)	(4,331)	(94)
Total non-interest income	\$ 79,479	\$ 52,120	\$ 27,359	52%
<b>Segment profit (loss):</b>				
Banking	\$ 30,869	\$ 47,110	\$ (16,241)	(34)%
Premium finance	23,931	22,290	1,641	7
Tricom	571	1,015	(444)	(44)
Wealth management	8,053	5,671	2,382	42
Parent and inter-segment eliminations	(44,891)	(36,076)	(8,815)	(24)
Total segment profit	\$ 18,533	\$ 40,010	\$ (21,477)	(54)%

*N/M = Not Meaningful*

**(10) Derivative Financial Instruments**

Management uses derivative financial instruments to protect against the risk of interest rate movements on the value of certain assets and liabilities and on future cash flows. The instruments that have been used by the Company include interest rate swaps and interest rate caps with indices that relate to the pricing of specific liabilities and covered call options that relate to specific investment securities. In addition, interest rate lock commitments provided to customers for the origination of mortgage loans that will be sold into the secondary market as well as forward agreements the Company enters into to sell such loans to protect itself against adverse changes in interest rates are deemed to be derivative instruments.

Derivative instruments have inherent risks, primarily market risk and credit risk. Market risk is associated with changes in interest rates and credit risk relates to the risk that the counterparty will fail to perform according to the terms of the agreement. The amounts potentially subject to market and credit risks are the streams of interest payments under the contracts and the market value of the derivative instrument which is determined based on the interaction of the notional amount of the contract with the underlying, and not the notional principal amounts used to express the

volume of the transactions. Management monitors the market risk and credit risk associated with derivative financial instruments as part of its overall Asset/Liability management process.

**Table of Contents**

In accordance with SFAS 133, the Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Derivative financial instruments are included in other assets or other liabilities, as appropriate, on the Consolidated Statements of Condition. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income in the same period and in the same income statement line as changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivative financial instruments accounted for as cash flow hedges, to the extent they are effective hedges, are recorded as a component of other comprehensive income, net of deferred taxes. Changes in fair values of derivative financial instruments not qualifying as hedges pursuant to SFAS 133 are reported in non-interest income. Derivative contracts are valued by a third party and are periodically validated by comparison with valuations provided by the respective counterparties.

*Interest Rate Swaps*

The tables below identify the Company's interest rate swaps at September 30, 2008 and December 31, 2007, which were entered into to hedge certain LIBOR-based liabilities and designated as cash flow hedges pursuant to SFAS 133 (*dollars in thousands*):

Maturity Date	Notional Amount	September 30, 2008			Type of Hedging Relationship
		Fair Value Gain (Loss)	Receive Rate (LIBOR)	Pay Rate (Fixed)	
<i>Pay Fixed, Receive Variable:</i>					
September 2011	\$ 20,000	\$ (897)	3.76%	5.25%	Cash Flow
September 2011	40,000	(1,790)	3.76%	5.25%	Cash Flow
October 2011	25,000	202	2.79%	3.39%	Cash Flow
September 2013	50,000	(2,897)	2.82%	5.30%	Cash Flow
September 2013	40,000	(2,241)	3.76%	5.30%	Cash Flow
<b>Total</b>	<b>\$ 175,000</b>	<b>\$ (7,623)</b>			

Maturity Date	Notional Amount	December 31, 2007			Type of Hedging Relationship
		Fair Value Gain (Loss)	Receive Rate (LIBOR)	Pay Rate (Fixed)	
<i>Pay Fixed, Receive Variable:</i>					
September 2011	\$ 20,000	\$ (922)	4.83%	5.25%	Cash Flow
September 2011	40,000	(1,847)	4.83%	5.25%	Cash Flow
October 2011	25,000	(1,165)	5.24%	5.26%	Cash Flow
September 2013	50,000	(2,852)	4.99%	5.30%	Cash Flow
September 2013	40,000	(2,281)	4.83%	5.30%	Cash Flow

Total	\$ 175,000	\$ (9,067)
-------	------------	------------

The fair values reflect unrealized losses of \$7.6 million at September 30, 2008 and \$9.1 million at December 31, 2007 which were recorded as other liabilities. The change in fair values in the nine months ended September 30, 2008, net of tax, is separately disclosed in the statement of changes in shareholders' equity as a component of comprehensive income. In September 2008, the Company terminated an interest rate swap with a notional amount of \$25.0 million, maturing in October 2011, and entered into a new interest rate swap with another counterparty to effectively replace the terminated swap. The interest rate swap was terminated by the Company in accordance with the default provisions in the swap agreement. The unrealized loss on the terminated swap will be amortized out of other comprehensive income over the remaining term of the terminated swap.

These swaps are designated as cash flow hedges in accordance with SFAS 133. The Company uses the hypothetical derivative method to assess and measure effectiveness. No ineffectiveness was recorded on these swaps in the quarter ended September 30, 2008.

**Table of Contents**

The Company's banking subsidiaries offer certain derivative products directly to qualified commercial borrowers. The Company economically hedges customer derivative transactions by entering into offsetting derivatives executed with third parties. Derivative transactions executed as part of this program are not designated in SFAS 133 hedge relationships and are, therefore, marked-to-market through earnings each period. In most cases the derivatives have mirror-image terms, which results in the positions' changes in fair value offsetting completely through earnings each period. However, to the extent that the derivatives are not a mirror-image, changes in fair value will not completely offset, resulting in some earnings impact each period. At September 30, 2008, the aggregate notional value of interest rate swaps with various commercial borrowers totaled approximately \$90.4 million and the aggregate notional value of mirror-image interest rate swaps with third parties also totaled \$90.4 million. These interest rate swaps mature between August 2010 and May 2016. These swaps were reported in the Company's balance sheet by a derivative asset of \$2.2 million and a derivative liability of \$2.1 million. At December 31, 2007, the aggregate notional value of interest rate swaps with various commercial borrowers totaled approximately \$32.6 million and the aggregate notional value of the mirror-image interest rate swaps with third parties also totaled \$32.6 million. At December 31, 2007, these swaps were reported in the Company's balance sheet by a derivative asset of \$1.7 million and a derivative liability of \$1.6 million. Interest rate swaps executed as part of this program are not reflected in the preceding tables.

*Mortgage Banking Derivatives*

The Company's mortgage banking derivatives have not been designated in SFAS 133 hedge relationships. These derivatives include commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of residential mortgage loans. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates on its commitments to fund the loans as well as on its portfolio of mortgage loans held-for-sale. At September 30, 2008, the Company had approximately \$97.2 million of interest rate lock commitments and \$164.0 million of forward commitments for the future delivery of residential mortgage loans. The estimated fair values of these mortgage banking derivatives are reflected by a derivative asset of \$384,000 and a derivative liability of \$273,000. The fair values were estimated based on changes in mortgage rates from the dates of the commitments. Changes in the fair value of these mortgage banking derivatives are included in mortgage banking revenue.

*Other Derivatives*

Periodically, the Company will sell options to a bank or dealer for the right to purchase certain securities held within the Banks' investment portfolios (covered call options). These option transactions are designed primarily to increase the total return associated with the investment securities portfolio. These options do not qualify as hedges pursuant to SFAS 133, and, accordingly, changes in fair value of these contracts are recognized as other non-interest income. The Company recognized premium income from these call option transactions of \$2.7 million and \$56,000 in the third quarters of 2008 and 2007, respectively. There were no covered call options outstanding as of September 30, 2008, December 31, 2007 or September 30, 2007.

**Table of Contents**

**(11) Fair Values of Assets and Liabilities**

Effective January 1, 2008, upon adoption of SFAS 157, the Company began to group financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value. These levels are:

Level 1 unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 significant unobservable inputs that reflect the Company's own assumptions that market participants would use in pricing the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the above valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities. Following is a description of the valuation methodologies used for the Company's assets and liabilities measured at fair value on a recurring basis.

*Available-for-sale and Trading account securities* - Fair values for available-for-sale and trading account securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing or indicators from market makers.

*Mortgage loans held-for-sale* - Mortgage loans originated by WestAmerica on or after January 1, 2008 are carried at fair value. The fair value of mortgage loans held-for-sale is determined by reference to investor price sheets for loan products with similar characteristics.

*Mortgage servicing rights* - Fair value for mortgage servicing rights is determined utilizing a third party valuation model which stratifies the servicing rights into pools based on product type and interest rate. The fair value of each servicing rights pool is calculated based on the present value of estimated future cash flows using a discount rate commensurate with the risk associated with that pool, given current market conditions. Estimates of fair value include assumptions about prepayment speeds, interest rates and other factors which are subject to change over time.

*Derivative instruments* - The Company's derivative instruments include interest rate swaps, commitments to fund mortgages for sale into the secondary market (interest rate locks) and forward commitments to end investors for the sale of mortgage loans. Interest rate swaps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. The fair value for mortgage derivatives is based on changes in mortgage rates from the date of the commitments.

*Retained interests from the sale of premium finance receivables* - The fair value of retained interests, which include servicing rights and interest only strips, from the sale of premium finance receivables are based on certain observable inputs such as interest rates and credits spreads, as well as unobservable inputs such as prepayments, late payments and estimated net charge-offs.



**Table of Contents**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis.

(Dollars in thousands)	Total	September 30, 2008		
		Level 1	Level 2	Level 3
Available-for-sale securities <sup>(1)</sup>	\$ 1,391,526	\$	\$ 1,342,814	\$ 48,712
Trading account securities	2,243	92	1,976	175
Mortgage loans held-for-sale	63,570		63,570	
Mortgage servicing rights	4,854			4,854
Derivative assets	2,532		2,532	
Retained interests from the sale of premium finance receivables	2,987			2,987
Total	\$ 1,467,712	\$ 92	\$ 1,410,892	\$ 56,728
Derivative liabilities	\$ 9,919	\$	\$ 9,919	\$

(1) Excludes Federal Reserve and FHLB stock and the common securities issued by trusts formed by the Company in conjunction with Trust Preferred Securities offerings.

The aggregate remaining contractual principal balance outstanding as of September 30, 2008 for mortgage loans held-for-sale measured at fair value under SFAS 159 was \$61.9 million while the aggregate fair value of mortgage loans held-for-sale was \$63.6 million as shown in the above table. There were no nonaccrual loans or loans past due greater than 90 days and still accruing in the mortgage loans held-for-sale portfolio measured at fair value as of September 30, 2008.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis during the three and nine months ended September 30, 2008 are summarized as follows:

(Dollars in thousands)	Available-for-sale securities	Trading Account Securities	Mortgage servicing rights	Retained Interests
Balance at June 30, 2008	\$ 149,188	\$ 125	\$ 4,896	\$ 5,264
Total net gains (losses) included in:				
Net income <sup>(1)</sup>			(42)	875
Other comprehensive income				
Purchases, issuances and settlements, net	9,593	50		(3,152)
Net transfers into/(out) of Level 3	(110,069)			

Balance at September 30, 2008	\$ 48,712	\$ 175	\$ 4,854	\$ 2,987
Balance at January 1, 2008	\$ 95,514	\$ 25	\$ 4,730	\$ 4,480
Total net gains included in:				
Net income <sup>(1)</sup>			124	5,728
Other comprehensive income				
Purchases, issuances and settlements, net	220,307	150		(7,221)
Net transfers into/(out) of Level 3	(267,109)			
Balance at September 30, 2008	\$ 48,712	\$ 175	\$ 4,854	\$ 2,987

(1) Changes in the balance of mortgage servicing rights are recorded as a component of mortgage banking revenue in non-interest income while gains for retained interests are recorded as a component of gain on sales of premium finance receivables in non-interest income.

**Table of Contents**

Also, the Company may be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or market accounting or impairment charges of individual assets. For assets measured at fair value on a nonrecurring basis in the third quarter that were still held in the balance sheet at the end of the period, the following table provides the carrying value of the related individual assets or portfolios at September 30, 2008.

(Dollars in thousands)	September 30, 2008			Level 3	Nine Months Ended September 30, 2008 Fair Value Losses Recognized
	Total	Level 1	Level 2		
Impaired loans	\$ 60,098	\$	\$	\$ 60,098	\$ 12,640

*Impaired loans* A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the fair value of the underlying collateral. As stated in SFAS 157, impaired loans are considered a fair value measurement where an allowance is established based on the fair value of collateral. Appraised values, which may require adjustments to market-based valuation inputs, are generally used on real estate collateral-dependant impaired loans.

**Table of Contents****(12) Goodwill and Other Intangible Assets**

A summary of the Company's goodwill assets by business segment is presented in the following table:

(Dollars in thousands)	January 1, 2008	Goodwill Acquired	Impairment Losses	September 30, 2008
Banking	\$ 245,696	\$ 190	\$	\$ 245,886
Premium finance	7,221	(83)		7,138
Tricom	8,958			8,958
Wealth management	14,329			14,329
Total	\$ 276,204	\$ 107	\$	\$ 276,311

The increase in the Banking segment's goodwill in the first nine months of 2008 relates to additional contingent consideration earned by former owners of Guardian as a result of attaining certain performance measures. Wintrust could pay additional consideration pursuant to the WestAmerica and Guardian transaction through June 2009. Any payments would be reflected in the Banking segment's goodwill.

The decrease in goodwill in the Premium finance segment in the first nine months of 2008 relates to adjustments of prior estimates of fair values associated with the November 2007 acquisition of Broadway.

A summary of finite-lived intangible assets as of September 30, 2008, December 31, 2007 and September 30, 2007 and the expected amortization as of September 30, 2008 is as follows (in thousands):

	September 30, 2008	December 31, 2007	September 30, 2007
<b>Wealth management segment:</b>			
<b>Customer list intangibles</b>			
Gross carrying amount	\$ 3,252	3,252	3,252
Accumulated amortization	(3,011)	(2,800)	(2,717)
Net carrying amount	241	452	535
<b>Banking segment:</b>			
<b>Core deposit intangibles</b>			
Gross carrying amount	27,918	27,918	27,918
Accumulated amortization	(12,770)	(10,633)	(9,752)
Net carrying amount	15,148	17,285	18,166
<b>Total other intangible assets, net</b>	<b>\$ 15,389</b>	17,737	18,701
Estimated amortization			
Actual in 9 months ended September 30, 2008	\$ 2,348		
Estimated remaining in 2008	781		
Estimated 2009	2,717		

Estimated 2010	<b>2,381</b>
Estimated 2011	<b>2,253</b>
Estimated 2012	<b>2,251</b>

The customer list intangibles recognized in connection with the acquisitions of LFCM in 2003 and WHAMC in 2002 are being amortized over seven-year periods on an accelerated basis. The core deposit intangibles recognized in connection with the Company's seven bank acquisitions since 2003 are being amortized over ten-year periods on an accelerated basis. Amortization expense associated with finite-lived intangibles totaled approximately \$2.3 million and \$2.9 million for the nine months ended September 30, 2008 and 2007, respectively.

**Table of Contents****(13) Stock-Based Compensation Plans**

The 2007 Stock Incentive Plan ( the 2007 Plan ), which was approved by the Company s shareholders in January 2007, permits the grant of incentive stock options, nonqualified stock options, rights and restricted stock, as well as the conversion of outstanding options of acquired companies to Wintrust options. The 2007 Plan provides for the issuance of up to 500,000 shares of common stock. All grants made in 2007 and 2008 were made pursuant to the 2007 Plan. As of September 30, 2008, 156,331 shares were available for future grant. The 2007 Plan replaced the Wintrust Financial Corporation 1997 Stock Incentive Plan ( the 1997 Plan ) which had substantially similar terms. The 2007 Plan and the 1997 Plan are collectively referred to as the Plans. The Plans cover substantially all employees of Wintrust.

The Company typically awards stock-based compensation in the form of stock options and restricted share awards. Stock options typically provide the holder the option to purchase shares of Wintrust s common stock at the fair market value of the stock on the date the options are granted. Options generally vest ratably over a five-year period and expire at such time as the Compensation Committee determines at the time of grant. The 2007 Plan provides for a maximum term of seven years from the date of grant while the 1997 Plan provided for a maximum term of ten years. Restricted shares entitle the holders to receive, at no cost, shares of the Company s common stock. Restricted shares generally vest over periods of one to five years from the date of grant. Holders of the restricted shares are not entitled to vote or receive cash dividends (or cash payments equal to the cash dividends) on the underlying common shares until the awards are vested. Except in limited circumstances, these awards are canceled upon termination of employment without any payment of consideration by the Company.

Compensation cost charged to income for stock options was \$1.2 million in the third quarters of 2008 and 2007, and \$3.6 million and \$3.9 million for the year-to-date periods of 2008 and 2007, respectively. Compensation cost charged to income for restricted shares was \$1.5 million in the third quarter of 2008 and \$1.4 million in the third quarter of 2007, and \$4.0 million and \$4.4 million for the year-to-date periods of 2008 and 2007, respectively.

Stock based compensation is recognized based upon the number of awards that are ultimately expected to vest. As a result, recognized compensation expense for stock options and restricted share awards was reduced for estimated forfeitures prior to vesting. Forfeitures rates are estimated for each type of award based on historical forfeiture experience. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

Stock-based compensation cost is measured as the fair value of an award on the date of grant and is recognized on a straight-line basis over the vesting period. The fair value of restricted shares is determined based on the average of the high and low trading prices on the grant date. The Company estimates the fair value of stock options at the date of grant using a Black-Scholes option-pricing model that utilizes the assumptions outlined in the following table. Option-pricing models require the input of highly subjective assumptions and are sensitive to changes in the option s expected life and the price volatility of the underlying stock, which can materially affect the fair value estimate. Expected life is based on historical exercise and termination behavior as well as the term of the option, and expected stock price volatility is based on historical volatility of the Company s common stock, which correlates with the expected term of the options. The risk-free interest rate is based on comparable U.S. Treasury rates. Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends. The following assumptions were used to determine the fair value of options granted in the nine months ending September 30, 2008 and 2007:

	<b>For the Nine Months Ended</b>	
	<b>September 30, 2008</b>	September 30, 2007
Expected dividend yield	1.1%	0.7%
Expected volatility	32.4%	25.6%
Risk-free rate	3.3%	4.9%
Expected option life (in years)	6.7	6.9

**Table of Contents**

A summary of stock option activity under the Plans for the nine months ended September 30, 2008 and September 30, 2007 is presented below:

	Common	Weighted Average Strike Price	Remaining Contractual Term <sup>(1)</sup>	Intrinsic Value <sup>(2)</sup> (\$000)
<i>Stock Options</i>	Shares			
<b>Outstanding at January 1, 2008</b>	<b>2,505,181</b>	<b>\$ 34.76</b>		
<b>Granted</b>	<b>57,450</b>	<b>31.83</b>		
<b>Exercised</b>	<b>(129,435)</b>	<b>15.34</b>		
<b>Forfeited or canceled</b>	<b>(27,595)</b>	<b>48.68</b>		
<b>Outstanding at September 30, 2008</b>	<b>2,405,601</b>	<b>\$ 35.57</b>	<b>4.7</b>	<b>\$ 11,493</b>
<b>Exercisable at September 30, 2008</b>	<b>1,832,550</b>	<b>\$ 32.08</b>	<b>4.2</b>	<b>\$ 11,493</b>
Outstanding at January 1, 2007	2,786,064	\$ 33.02		
Granted	41,500	43.36		
Exercised	(130,334)	18.10		
Forfeited or canceled	(74,174)	48.21		
Outstanding at September 30, 2007	2,623,056	\$ 33.49	5.1	\$ 34,909
Exercisable at September 30, 2007	1,890,640	\$ 27.14	4.3	\$ 34,454

*(1) Represents the weighted average contractual life remaining in years.*

*(2) Aggregate intrinsic value represents the total pre-tax intrinsic value (i.e., the difference between the Company's average of the high and low stock price on*

*the last trading day of the quarter and the option exercise price, multiplied by the number of shares) that would have been received by the option holders if they had exercised their options on the last day of the quarter. This amount will change based on the fair market value of the Company's stock.*

The weighted average grant date fair value per share of options granted during the nine months ended September 30, 2008 and 2007 was \$10.98 and \$15.47, respectively. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2008 and 2007, was \$2.2 million and \$3.5 million, respectively.

A summary of restricted share award activity under the Plans for the nine months ended September 30, 2008 and September 30, 2007, is presented below:

	<b>Nine Months Ended September 30, 2008</b>		Nine Months Ended September 30, 2007	
	<b>Common</b>	<b>Weighted Average Grant-Date Fair Value</b>	<b>Common</b>	<b>Weighted Average Grant-Date Fair Value</b>
<b><i>Restricted Shares</i></b>	<b>Shares</b>	<b>Value</b>	<b>Shares</b>	<b>Value</b>
Outstanding at January 1	<b>308,627</b>	<b>\$ 48.16</b>	335,904	\$ 51.78
Granted	<b>60,556</b>	<b>29.78</b>	63,277	42.70
Vested (shares issued)	<b>(83,761)</b>	<b>49.18</b>	(89,466)	52.16
Forfeited	<b>(4,984)</b>	<b>40.25</b>	(12,164)	47.28
Outstanding at September 30	<b>280,438</b>	<b>\$ 44.04</b>	297,551	\$ 49.91

As of September 30, 2008, there was \$13.2 million of total unrecognized compensation cost related to non-vested share based arrangements under the Plans. That cost is expected to be recognized over a weighted average period of approximately two years.

The Company issues new shares to satisfy option exercises and vesting of restricted shares.



**Table of Contents****(14) Shareholders Equity and Earnings Per Share**

In August 2008, the Company issued \$50 million of non-cumulative perpetual convertible preferred stock in a private transaction. If declared, dividends on the preferred stock are payable quarterly in arrears at a rate of 8.00% per annum. The shares are convertible into common stock at the option of the holder at a price per share of \$27.38 which is equal to 120% of the average of the midpoint of the intraday high and intraday low trading prices for the Company's common stock for the fifteen consecutive trading day period ended August 22, 2008. On and after August 26, 2010, the preferred stock will be subject to mandatory conversion into common stock under certain circumstances.

The following table shows the computation of basic and diluted EPS for the periods indicated:

(In thousands, except per share data)		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2008	2007	2008	2007
Net (loss) income		\$ (2,448)	\$ 9,919	\$ 18,533	\$ 40,010
Dividends declared on preferred shares		544		544	
Net (loss) income applicable to common shares	(A)	(2,992)	9,919	17,989	40,010
Average common shares outstanding	(B)	23,644	23,797	23,590	24,322
Effect of dilutive potential common shares			795	525	806
Weighted average common shares and effect of dilutive potential common shares	(C)	23,644	24,592	24,115	25,128
Net income per common share:					
Basic	(A/B)	\$ (0.13)	\$ 0.42	\$ 0.76	\$ 1.65
Diluted	(A/C)	\$ (0.13)	\$ 0.40	\$ 0.75	\$ 1.59

Potentially dilutive common shares can result from stock options, restricted stock unit awards, stock warrants, the Company's convertible preferred stock and shares to be issued under the Employee Stock Purchase Plan and the Directors Deferred Fee and Stock Plan, being treated as if they had been either exercised or issued, computed by application of the treasury stock method. While potentially dilutive common shares are typically included in the computation of diluted earnings per share, potentially dilutive common shares are excluded from this computation in periods in which the effect would reduce the loss per share or increase the income per share. For diluted earnings per share, net income applicable to common shares can be affected by the conversion of the Company's convertible preferred stock. Where the effect of this conversion would reduce the loss per share or increase the income per share, net income applicable to common shares is adjusted by the associated preferred dividends.

**Table of Contents**

**ITEM 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**  
**CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of financial condition as of September 30, 2008, compared with December 31, 2007, and September 30, 2007, and the results of operations for the nine month periods ended September 30, 2008 and 2007 should be read in conjunction with the Company's unaudited consolidated financial statements and notes contained in this report. This discussion contains forward-looking statements that involve risks and uncertainties and, as such, future results could differ significantly from management's current expectations. See the last section of this discussion for further information on forward-looking statements.

**Overview and Strategy**

Wintrust is a financial holding company providing traditional community banking services as well as a full array of wealth management services to customers in the Chicago metropolitan area and southern Wisconsin. Additionally, the Company operates other financing businesses on a national basis through several non-bank subsidiaries.

**Community Banking**

As of September 30, 2008, the Company's community banking franchise consisted of 15 community banks (the "Banks") with 79 locations. The Company developed its banking franchise through the *de novo* organization of nine banks (55 locations) and the purchase of seven banks, one of which was merged into another of our banks, with 24 locations. Wintrust's first bank was organized in December 1991, as a highly personal service-oriented community bank. Each of the banks organized or acquired since then share that same commitment to community banking. The historical financial performance of the Company has been affected by costs associated with growing market share in deposits and loans, establishing and acquiring banks, opening new branch facilities and building an experienced management team. The Company's financial performance generally reflects the improved profitability of its banking subsidiaries as they mature, offset by the costs of establishing and acquiring banks and opening new branch facilities. From the Company's experience, it generally takes 13 to 24 months for new banks to achieve operational profitability depending on the number and timing of branch facilities added.

The following table presents the Banks in chronological order based on the date in which they joined Wintrust. Each of the Banks has established additional full-service banking facilities subsequent to their initial openings.

	<i>De novo / Acquired</i>	Date
Lake Forest Bank	<i>De novo</i>	December, 1991
Hinsdale Bank	<i>De novo</i>	October, 1993
North Shore Bank	<i>De novo</i>	September, 1994
Libertyville Bank	<i>De novo</i>	October, 1995
Barrington Bank	<i>De novo</i>	December, 1996
Crystal Lake Bank	<i>De novo</i>	December, 1997
Northbrook Bank	<i>De novo</i>	November, 2000
Advantage Bank ( <i>organized 2001</i> )	Acquired	October, 2003
Village Bank ( <i>organized 1995</i> )	Acquired	December, 2003
Beverly Bank	<i>De novo</i>	April, 2004
Wheaton Bank ( <i>formerly Northview Bank; organized 1993</i> )	Acquired	September, 2004
Town Bank ( <i>organized 1998</i> )	Acquired	October, 2004
State Bank of The Lakes ( <i>organized 1894</i> )	Acquired	January, 2005
First Northwest Bank ( <i>organized 1995; merged into Village Bank in May 2005</i> )	Acquired	March, 2005
Old Plank Trail Bank	<i>De novo</i>	March, 2006
St. Charles Bank ( <i>formerly Hinsbrook Bank; organized 1987</i> )	Acquired	May, 2006

**Table of Contents**

Following is a summary of the activity related to the expansion of the Company's banking franchise since September 30, 2007:

***2008 Banking Expansion Activity***

*New branch locations:*

Ø Vernon Hills, Illinois a branch of Libertyville Bank

Ø Deerfield, Illinois a branch of Northbrook Bank

Management's ongoing focus is to balance further asset growth with earnings growth by seeking to more fully leverage the existing capacity within each of the operating subsidiaries. One aspect of this strategy is to continue to pursue specialized earning asset niches in order to maintain the mix of earning assets in higher-yielding loans as well as diversify the loan portfolio. Another aspect of this strategy is a continued focus on less aggressive deposit pricing at the Banks with significant market share and more established customer bases.

***Specialty Lending***

First Insurance Funding Corporation ( FIFC ) is the Company's most significant specialized earning asset niche. FIFC makes loans to businesses to finance the insurance premiums they pay on their commercial insurance policies. The insurance premiums financed are primarily for commercial customers' purchases of liability, property and casualty and other commercial insurance. This lending involves relatively rapid turnover of the loan portfolio and high volume of loan originations. Because of the indirect nature of this lending and because the borrowers are located nationwide, this segment may be more susceptible to third party fraud than relationship lending; however, management established various control procedures to mitigate the risks associated with this lending. The majority of these loans are purchased by the Banks in order to more fully utilize their lending capacity as these loans generally provide the Banks with higher yields than alternative investments. However, excess FIFC originations over the capacity to retain such loans within the Banks' loan portfolios may be sold to unrelated third parties with servicing retained.

Additionally, in 2007, FIFC began to make loans to irrevocable life insurance trusts to purchase life insurance policies for high net-worth individuals. The loans are originated through independent insurance agents or financial advisors and legal counsel. The life insurance policy is the primary collateral on the loan and, in most cases, the loans are also secured by a letter of credit.

On November 1, 2007, the Company acquired Broadway Premium Funding Corporation ( Broadway ). Broadway is a commercial finance company that specializes in financing insurance premiums for corporate entities. Its products are marketed through insurance agents and brokers to their small to mid-size corporate clients primarily in the northeastern United States and California. Broadway was a subsidiary of FIFC, however, it was merged into FIFC in November 2008.

FIFC and Broadway originated approximately \$748 million in loan (premium finance receivables) volume in the third quarter of 2008, and \$2.3 billion in the first nine months of 2008. FIFC and, since the date of acquisition, Broadway, originated approximately \$3.1 billion in loan volume in the calendar year 2007. The loans are originated by FIFC working through independent medium and large insurance agents and brokers located throughout the United States.

SGB Corporation d/b/a WestAmerica Mortgage Company ( WestAmerica ) engages primarily in the origination and purchase of residential mortgages for sale into the secondary market. WestAmerica's affiliate, Guardian Real Estate Services, Inc. ( Guardian ) provides the document preparation and other loan closing services to WestAmerica and a network of mortgage brokers. WestAmerica sells its loans with servicing released and does not currently engage in servicing loans for others. WestAmerica maintains principal origination offices in nine states, including Illinois, and originates loans in other states through wholesale and correspondent offices. WestAmerica provides the Banks with the ability to use an enhanced loan origination and documentation system which allows WestAmerica and the Banks to better utilize existing operational capacity and expand the mortgage products offered to the Banks' customers. WestAmerica's production of adjustable rate mortgage loan products and other variable rate mortgage loan products may be purchased by the Banks for their loan portfolios resulting in additional earning assets to the combined organization, thus adding further desired diversification to the Company's earning asset base.

**Table of Contents**

Tricom Inc. ( Tricom ) is a company that has been in business since 1989 and specializes in providing high-yielding, short-term accounts receivable financing and value-added, out-sourced administrative services, such as data processing of payrolls, billing and cash management services, to clients in the temporary staffing industry. Tricom's clients, located throughout the United States, provide staffing services to businesses in diversified industries. These receivables may involve greater credit risks than generally associated with the loan portfolios of more traditional community banks depending on the marketability of the collateral. The principal sources of repayments on the receivables are payments to borrowers from their customers who are located throughout the United States. Tricom mitigates this risk by employing lockboxes and other cash management techniques to protect its interests. Tricom's revenue principally consists of interest income from financing activities and fee-based revenues from administrative services.

In addition to the earning asset niches provided by the Company's non-bank subsidiaries, several earning asset niches operate within the Banks. Barrington Bank's Community Advantage program provides lending, deposit and cash management services to condominium, homeowner and community associations. In addition, Hinsdale Bank operates a mortgage warehouse lending program that provides loan and deposit services to mortgage brokerage companies located predominantly in the Chicago metropolitan area, and Crystal Lake Bank has a specialty in small aircraft lending. The Company continues to pursue the development or acquisition of other specialty lending businesses that generate assets suitable for bank investment and/or secondary market sales.

At the beginning of the third quarter of 2008, the Company ceased the origination of indirect automobile loans through Hinsdale Bank. This niche business has served the Company well over the past twelve years in helping *de novo* banks quickly and profitably, grow into their physical structures. Competitive pricing pressures have significantly reduced the long-term potential profitability of this niche business. Given the current economic environment, the retirement of the founder of this niche business and the Company's belief that interest rates may rise over the longer-term, exiting the origination of this business was deemed to be in the best interest of the Company. The Company continues to service its existing portfolio during the duration of the credits and does not anticipate any change in historical credit trends for this niche business given this decision.

**Wealth Management**

Wayne Hummer Investments LLC ( WHI ), a registered broker-dealer, provides a full-range of investment products and services tailored to meet the specific needs of individual and institutional investors throughout the country, primarily in the Midwest. In addition, WHI provides a full range of investment services to clients through a network of relationships with unaffiliated community-based financial institutions located primarily in Illinois. Although headquartered in Chicago, WHI also operates an office in Appleton, Wisconsin and has branch locations in a majority of the Company's Banks.

Wayne Hummer Asset Management Company ( WHAMC ), a registered investment advisor, is the investment advisory affiliate of WHI. WHAMC provides money management, financial planning and investment advisory services to individuals and institutional, municipal and tax-exempt organizations. WHAMC also provides portfolio management and financial supervision for a wide-range of pension and profit sharing plans.

Wayne Hummer Trust Company ( WHTC ) was formed to offer trust and investment management services to all communities served by the Banks. In addition to offering trust services to existing bank customers at each of the Banks, WHTC targets small to mid-size businesses and affluent individuals whose needs command the personalized attention offered by WHTC's experienced trust professionals. Services offered by WHTC typically include traditional trust products and services, as well as investment management services.

**Table of Contents**

The following table presents a summary of the approximate amount of assets under administration and/or management in the Company's wealth management operating subsidiaries as of the dates shown:

(Dollars in thousands)	<b>September 30, 2008</b>	December 31, 2007	September 30, 2007
WHTC	\$ <b>1,007,842</b>	\$ 1,009,587	\$ 1,045,869
WHAMC <sup>(1)</sup>	<b>410,820</b>	522,893	532,150
WHAMC's proprietary mutual fund	<b>9,053</b>	18,015	23,616
WHI brokerage assets in custody	<b>4,400,000</b>	5,600,000	5,700,000

<sup>(1)</sup> Excludes the  
proprietary  
mutual fund  
managed by  
WHAMC

The decrease in assets under administration and/or management in the third quarter of 2008 was primarily due to lower market valuations.

**Table of Contents****RESULTS OF OPERATIONS****Earnings Summary**

The Company's key operating measures for 2008, as compared to the same period last year, are shown below:

	<b>Three Months</b>	Three Months	Percentage (%) or Basis Point (bp)
	<b>Ended</b>	Ended	
(Dollars in thousands, except per share data)	<b>September 30, 2008</b>	September 30, 2007	Change
Net (loss) income	\$ (2,448)	\$ 9,919	(125)%
Net (loss) income per common share Diluted	(0.13)	0.40	(133)
Net revenue <sup>(1)</sup>	82,595	77,724	6
Net interest income	60,680	66,187	(8)
Net interest margin <sup>(6)</sup>	2.74%	3.14%	(40) bp
Core net interest margin <sup>(2) (6)</sup>	2.97	3.43	(46)
Net overhead ratio <sup>(3)</sup>	1.65	2.03	(38)
Efficiency ratio <sup>(4) (6)</sup>	76.57	75.73	84
Return on average assets	(0.10)	0.42	(52)
Return on average common equity	(1.59)	5.53	(712)
	<b>Nine Months</b>	Nine Months	Percentage (%) or Basis Point (bp)
	<b>Ended</b>	Ended	
(Dollars in thousands, except per share data)	<b>September 30, 2008</b>	September 30, 2007	Change
Net income	\$ 18,533	\$ 40,010	(54)%
Net income per common share Diluted	0.75	1.59	(53)
Net revenue <sup>(1)</sup>	261,301	248,232	5
Net interest income	181,822	196,112	(7)
Net interest margin <sup>(6)</sup>	2.83%	3.13%	(30) bp
Core net interest margin <sup>(2) (6)</sup>	3.08	3.39	(31)
Net overhead ratio <sup>(3)</sup>	1.54	1.81	(27)
Efficiency ratio <sup>(4) (6)</sup>	72.19	71.65	54
Return on average assets	0.26	0.57	(31)
Return on average common equity	3.20	7.34	(414)
<b>At end of period</b>			
Total assets	\$ 9,864,920	\$ 9,465,114	4%
Total loans, net of unearned income	7,322,545	6,808,359	8
Total deposits	7,829,527	7,578,064	3
Junior subordinated debentures	249,537	249,704	
Total shareholders' equity	809,331	721,973	12

Edgar Filing: WINTRUST FINANCIAL CORP - Form 10-Q

Book value per common share	<b>32.07</b>	30.55	5
Market price per common share	<b>29.35</b>	42.69	(31)
Allowance for credit losses to total loans (5)	<b>0.91%</b>	0.72%	19 bp
Non-performing loans to total loans	<b>1.54</b>	0.69	85

(1) *Net revenue is net interest income plus non-interest income.*

(2) *The core net interest margin excludes the effect of the net interest expense associated with Wintrust's junior subordinated debentures and the interest expense incurred to fund common stock repurchases.*

(3) *The net overhead ratio is calculated by netting total non-interest expense and total non-interest income, annualizing this amount, and dividing by that period's total average assets. A lower ratio indicates a higher degree of efficiency.*

(4) *The efficiency ratio is calculated by dividing total non-interest expense by tax-equivalent net revenue (less*

*securities gains or losses). A lower ratio indicates more efficient revenue generation.*

*(5) The allowance for credit losses includes both the allowance for loan losses and the allowance for lending-related commitments.*

*(6) See following section titled, Supplemental Financial Measures/Ratios for additional information on this performance measure/ratio.*

Certain returns, yields, performance ratios, and quarterly growth rates are annualized in this presentation and throughout this report to represent an annual time period. This is done for analytical purposes to better discern for decision-making purposes underlying performance trends when compared to full-year or year-over-year amounts. For example, balance sheet growth rates are most often expressed in terms of an annual rate. As such, 5% growth during a quarter would represent an annualized growth rate of 20%.



**Table of Contents****Supplemental Financial Measures/Ratios**

The accounting and reporting policies of Wintrust conform to generally accepted accounting principles ( GAAP ) in the United States and prevailing practices in the banking industry. However, certain non-GAAP performance measures and ratios are used by management to evaluate and measure the Company s performance. These include taxable-equivalent net interest income (including its individual components), net interest margin (including its individual components), core net interest margin and the efficiency ratio. Management believes that these measures and ratios provide users of the Company s financial information with a more meaningful view of the performance of interest-earning assets and interest-bearing liabilities and of the Company s operating efficiency. Other financial holding companies may define or calculate these measures and ratios differently.

Management reviews yields on certain asset categories and the net interest margin of the Company and its banking subsidiaries on a fully taxable-equivalent ( FTE ) basis. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources. Net interest income on a FTE basis is also used in the calculation of the Company s efficiency ratio. The efficiency ratio, which is calculated by dividing non-interest expense by total taxable-equivalent net revenue (less securities gains or losses), measures how much it costs to produce one dollar of revenue. Securities gains or losses are excluded from this calculation to better match revenue from daily operations to operational expenses.

Management also evaluates the net interest margin excluding the net interest expense associated with the Company s junior subordinated debentures and the interest expense incurred to fund common stock repurchases ( Core Net Interest Margin ). Because junior subordinated debentures are utilized by the Company primarily as capital instruments and the cost incurred to fund common stock repurchases is capital utilization related, management finds it useful to view the net interest margin excluding these expenses and deems it to be a more meaningful view of the operational net interest margin of the Company.

A reconciliation of certain non-GAAP performance measures and ratios used by the Company to evaluate and measure the Company s performance to the most directly comparable GAAP financial measures is shown below:

(Dollars in thousands)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>(A) Interest income (GAAP)</b>	<b>\$ 126,569</b>	<b>\$ 154,645</b>	<b>\$ 388,905</b>	<b>\$ 459,840</b>
Taxable-equivalent adjustment:				
Loans	<b>142</b>	214	<b>499</b>	618
Liquidity management assets	<b>423</b>	534	<b>1,362</b>	1,634
Other earning assets	<b>12</b>	6	<b>31</b>	11
Interest income FTE	<b>\$ 127,146</b>	\$ 155,399	<b>\$ 390,797</b>	\$ 462,103
<b>(B) Interest expense (GAAP)</b>	<b>65,889</b>	88,458	<b>207,083</b>	263,728
Net interest income FTE	<b>\$ 61,257</b>	\$ 66,941	<b>\$ 183,714</b>	\$ 198,375
<b>(C) Net interest income (GAAP) (A minus B)</b>	<b>\$ 60,680</b>	\$ 66,187	<b>\$ 181,822</b>	\$ 196,112
Net interest income FTE	<b>\$ 61,257</b>	\$ 66,941	<b>\$ 183,714</b>	\$ 198,375
Add: Interest expense on junior subordinated debentures and interest cost incurred for common stock repurchases <sup>(1)</sup>	<b>5,157</b>	6,047	<b>16,519</b>	16,954
Core net interest income FTE <sup>(2)</sup>	<b>\$ 66,414</b>	\$ 72,988	<b>\$ 200,233</b>	\$ 215,329

<b>(D) Net interest margin (GAAP)</b>	<b>2.71%</b>	3.11%	<b>2.80%</b>	3.09%
Net interest margin FTE	<b>2.74%</b>	3.14%	<b>2.83%</b>	3.13%
Core net interest margin FTE <sup>(2)</sup>	<b>2.97%</b>	3.43%	<b>3.08%</b>	3.39%
<b>(E) Efficiency ratio (GAAP)</b>	<b>77.12%</b>	76.46%	<b>72.71%</b>	72.31%
Efficiency ratio FTE	<b>76.57%</b>	75.73%	<b>72.19%</b>	71.65%

(1) *Interest expense from the junior subordinated debentures is net of the interest income on the Common Securities of the Trusts owned by the Company and included in interest income. Interest cost incurred for common stock repurchases is estimated using current period average rates on certain debt obligations.*

(2) *Core net interest income and core net interest margin are by definition non-GAAP measures/ratios. The GAAP equivalents are the net interest income and net interest margin determined in accordance with GAAP (lines C and D in the table).*

**Table of Contents****Critical Accounting Policies**

The Company's Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States and prevailing practices of the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Critical accounting policies inherently have greater complexity and greater reliance on the use of estimates, assumptions and judgments than other accounting policies, and as such have a greater possibility that changes in those estimates and assumptions could produce financial results that are materially different than originally reported. Estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as information changes, the financial statements could reflect different estimates and assumptions. Management currently views critical accounting policies to include the determination of the allowance for loan losses and the allowance for losses on lending-related commitments, the valuation of the retained interest in the premium finance receivables sold, the valuations required for impairment testing of goodwill, the valuation and accounting for derivative instruments and the accounting for income taxes as the areas that are most complex and require the most subjective and complex judgments, and as such could be most subject to revision as new information becomes available. For a more detailed discussion on these critical accounting policies, see Summary of Critical Accounting Policies beginning on page 28 of the Company's 2007 Annual Report.

During the second quarter of 2008, the Company refined its methodology for determining certain elements of the allowance for loan losses. These refinements resulted in allocation of the allowance to loan portfolio groups based on loan collateral and credit risk rating. Previously, this element of the allowance was not segmented at the loan collateral and credit risk rating level. Impaired loans continue to be evaluated on an individual loan basis in accordance with Statement of Financial Accounting Standard (SFAS) 114, Accounting by Creditors for Impairment of a Loan.

**Net Income**

For the quarter ended September 30, 2008 the Company reported a \$2.4 million loss, a difference of \$12.3 million compared to income of \$9.9 million recorded in the third quarter of 2007. As compared to income of \$11.3 million recorded in the second quarter of 2008, net income decreased \$13.7 million. On a per share basis, the Company reported a net loss of \$0.13 per diluted common share, a decrease of \$0.53 per share as compared to the 2007 third quarter net income of \$0.40 per diluted common share. Compared to the second quarter of 2008, net income per diluted share in the third quarter of 2008 decreased by \$0.60.

The main item negatively impacting the third quarter of 2008 results was a \$24.1 million provision for credit losses during the quarter, as discussed in the Asset Quality section of this report. Other items that affected net income results in the third quarter of 2008 were net interest rate margin compression resulting from the continued effect of the Federal Reserve Board's prior quarters' interest rate cuts, partially offset by a higher level of covered call option income and mortgage banking revenue. The return on average common equity for the third quarter of 2008 was (1.59)%, compared to 5.53% for the prior year third quarter and 5.97% for the second quarter of 2008.

Net income for the first nine months of 2008 totaled \$18.5 million, a decrease of \$21.5 million, or 54%, compared to \$40.0 million for the same period in 2007. On a per share basis, net income per diluted common share was \$0.75 for the first nine months of 2008, a decrease of \$0.84 per share, or 53%, compared to \$1.59 for the first nine months of 2007. Return on average common equity for the first nine months of 2008 was 3.20% versus 7.34% for the same period of 2007.

**Table of Contents****Net Interest Income**

Net interest income, which represents the difference between interest income and fees on earning assets and interest expense on deposits and borrowings, is the major source of earnings for the Company. Interest rate fluctuations and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin represents tax-equivalent net interest income as a percentage of the average earning assets during the period. The following table presents a summary of the Company's net interest income and related net interest margins, calculated on a fully taxable equivalent basis, for the third quarter of 2008 as compared to the third quarter of 2007 (linked quarters):

(Dollars in thousands)	For the Three Months Ended September 30, 2008			For the Three Months Ended September 30, 2007		
	Average	Interest	Rate	Average	Interest	Rate
Liquidity management assets <sup>(1) (2) (8)</sup>	\$ 1,544,465	\$ 18,247	4.70%	\$ 1,551,389	\$ 20,079	5.13%
Other earning assets <sup>(2) (3) (8)</sup>	21,687	262	4.81	23,882	527	8.76
Loans, net of unearned income <sup>(2) (4) (8)</sup>	7,343,845	108,637	5.89	6,879,856	134,793	7.77
Total earning assets <sup>(8)</sup>	\$ 8,909,997	\$ 127,146	5.68%	\$ 8,455,127	\$ 155,399	7.29%
Allowance for loan losses	(57,751)			(48,839)		
Cash and due from banks	133,527			129,904		
Other assets	895,781			845,868		
Total assets	\$ 9,881,554			\$ 9,382,060		
Interest-bearing deposits	\$ 7,127,065	\$ 53,405	2.98%	\$ 6,892,110	\$ 74,324	4.28%
Federal Home Loan Bank advances	438,983	4,583	4.15	403,590	4,479	4.40
Notes payable and other borrowings	398,911	2,661	2.65	330,184	3,721	4.47
Subordinated notes	75,000	786	4.10	75,000	1,305	6.81
Junior subordinated debentures	249,552	4,454	6.98	249,719	4,629	7.25
Total interest-bearing liabilities	\$ 8,289,511	\$ 65,889	3.16%	\$ 7,950,603	\$ 88,458	4.41%
Non-interest bearing deposits	678,651			643,338		
Other liabilities	147,500			76,004		
Equity	765,892			712,115		
Total liabilities and shareholders' equity	\$ 9,881,554			\$ 9,382,060		
Interest rate spread <sup>(5) (8)</sup>			2.52%			2.88%
Net free funds/contribution <sup>(6)</sup>	\$ 620,486		0.22	\$ 504,524		0.26
Net interest income/Net interest margin <sup>(8)</sup>		\$ 61,257	2.74%		\$ 66,941	3.14%
Core net interest margin <sup>(7) (8)</sup>			2.97%			3.43%

- (1) *Liquidity management assets include available-for-sale securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements.*
- (2) *Interest income on tax-advantaged loans, trading account securities and securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate of 35%. The total adjustments for the three months ended September 30, 2008 and 2007 were \$576,000 and \$754,000, respectively.*
- (3) *Other earning assets include brokerage customer receivables and trading account securities.*
- (4) *Loans, net of unearned income, include mortgages held-for-sale and non-accrual loans.*
- (5)

*Interest rate spread is the difference between the yield earned on earning assets and the rate paid on interest-bearing liabilities.*

(6) *Net free funds are the difference between total average earning assets and total average interest-bearing liabilities. The estimated contribution to net interest margin from net free funds is calculated using the rate paid for total interest-bearing liabilities.*

(7) *The core net interest margin excludes the effect of the net interest expense associated with Wintrust's junior subordinated debentures and the interest expense incurred to fund common stock repurchases.*

(8) *See Supplemental Financial Measures/Ratios for additional information on this performance measure/ratio.*



**Table of Contents**

*Quarter Ended September 30, 2008 compared to the Quarter Ended September 30, 2007*

Tax-equivalent net interest income for the quarter ended September 30, 2008 totaled \$61.3 million, a decrease of \$5.7 million, or 8%, as compared to the \$66.9 million recorded in the same quarter of 2007.

For the third quarter of 2008, the net interest margin was 2.74%, down 40 basis points when compared to the net interest margin of 3.14% in the same quarter of 2007. The core net interest margin, which excludes the net interest expense related to the Company's junior subordinated debentures and the interest expense attributable to funding common stock repurchases, was 2.97% for the third quarter of 2008 compared to 3.43% for the third quarter of 2007. The yield on total earning assets was 5.68% for the third quarter of 2008 and 7.29% in the third quarter of 2007. The third quarter 2008 yield on loans was 5.89%, a 188 basis point decrease when compared to the prior year third quarter yield of 7.77%. The yield on liquidity management assets in the third quarter of 2008 was 4.70% compared to 5.13% in the third quarter of 2007.

The rate paid on interest-bearing liabilities was 3.16% in the third quarter of 2008 and 4.41% in the third quarter of 2007. The interest-bearing deposit rate in the third quarter of 2008 declined 130 basis points to 2.98% from a rate of 4.28% in the same quarter in 2007. Progress has been made since the third quarter of 2007 in shifting the mix of retail deposits away from certificates of deposit into lower cost, more variable rate NOW, savings, money market and wealth management deposits.

The rate paid on wholesale funding, consisting of Federal Home Loan Bank of Chicago advances, notes payable, subordinated notes, other borrowings and junior subordinated debentures, decreased to 4.24% in the third quarter of 2008 compared to 5.27% in the third quarter of 2007. The Company utilizes certain borrowing sources to fund the additional capital requirements of the Banks, manage capital, manage its interest rate risk position and for general corporate purposes.

The lower levels of net interest income and net interest margin in the third quarter of 2008 were caused by margin compression. The Company has made progress in shifting its mix of retail deposits away from certificates of deposit into lower cost, more variable rate NOW, savings, money market and wealth management deposits. Interest rate compression on large portions of NOW, savings and money market accounts as the Federal Reserve quickly lowered rates prevented these deposits from repricing at the same magnitude as variable rate earning assets. Management believes opportunities for increasing spreads in the commercial and commercial real estate portfolio should help mitigate the effects of interest rate spread compression on variable rate retail deposits and the unprecedented competitive retail deposit pricing given the current economic conditions that have hindered net interest margin expansion. The average loan-to-average deposit ratio increased to 94.1% in the third quarter of 2008 from 91.3% in the third quarter of 2007. In the fourth quarter of 2007 the Company reinstated its program of selling premium finance receivables as the average loan-to-average deposit ratio was above the target of 85% to 90%. The higher nature of this ratio is primarily a result of the strong commercial and commercial real estate loan growth combined with a restricted market for loan sales and securitizations.



**Table of Contents**

The following table presents a summary of the Company's net interest income and related net interest margins, calculated on a fully taxable equivalent basis, for the third quarter of 2008 as compared to the second quarter of 2008 (sequential quarters):

(Dollars in thousands)	For the Three Months Ended September 30, 2008			For the Three Months Ended June 30, 2008		
	Average	Interest	Rate	Average	Interest	Rate
Liquidity management assets <sup>(1) (2) (8)</sup>	\$ 1,544,465	\$ 18,247	4.70%	\$ 1,543,795	\$ 17,521	4.56%
Other earning assets <sup>(2) (3) (8)</sup>	21,687	262	4.81	22,519	270	4.83
Loans, net of unearned income <sup>(2) (4) (8)</sup>	7,343,845	108,637	5.89	7,158,317	108,961	6.12
Total earning assets <sup>(8)</sup>	\$ 8,909,997	\$ 127,146	5.68%	\$ 8,724,631	\$ 126,752	5.84%
Allowance for loan losses	(57,751)			(53,798)		
Cash and due from banks	133,527			125,806		
Other assets	895,781			885,815		
Total assets	\$ 9,881,554			\$ 9,682,454		
Interest-bearing deposits	\$ 7,127,065	\$ 53,405	2.98%	\$ 6,906,437	\$ 53,862	3.14%
Federal Home Loan Bank advances	438,983	4,583	4.15	437,642	4,557	4.19
Notes payable and other borrowings	398,911	2,661	2.65	439,130	2,900	2.66
Subordinated notes	75,000	786	4.10	75,000	843	4.45
Junior subordinated debentures	249,552	4,454	6.98	249,594	4,598	7.29
Total interest-bearing liabilities	\$ 8,289,511	\$ 65,889	3.16%	\$ 8,107,803	\$ 66,760	3.31%
Non-interest bearing deposits	678,651			663,526		
Other liabilities	147,500			150,872		
Equity	765,892			760,253		
Total liabilities and shareholders' equity	\$ 9,881,554			\$ 9,682,454		
Interest rate spread <sup>(5) (8)</sup>			2.52%			2.53%
Net free funds/contribution <sup>(6)</sup>	\$ 620,486		0.22	\$ 616,828		0.24
Net interest income/Net interest margin <sup>(8)</sup>		\$ 61,257	2.74%		\$ 59,992	2.77%
Core net interest margin <sup>(7) (8)</sup>			2.97%			3.02%

(1) Liquidity  
management

*assets include available-for-sale securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements.*

- (2) *Interest income on tax-advantaged loans, trading account securities and securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate of 35%. The total adjustments for the three months ended September 30, 2008 was \$576,000 and for the three months ended June 30, 2008 was \$592,000.*
- (3) *Other earning assets include brokerage customer receivables and trading account securities.*
- (4) *Loans, net of unearned income, include mortgages held-for-sale and non-accrual loans.*
- (5) *Interest rate spread is the difference between the yield earned*

*on earning assets  
and the rate paid  
on  
interest-bearing  
liabilities.*

- (6) *Net free funds are the difference between total average earning assets and total average interest-bearing liabilities. The estimated contribution to net interest margin from net free funds is calculated using the rate paid for total interest-bearing liabilities.*
- (7) *The core net interest margin excludes the effect of the net interest expense associated with Wintrust's junior subordinated debentures and the interest expense incurred to fund common stock repurchases.*
- (8) *See Supplemental Financial Measures/Ratios for additional information on this performance measure/ratio.*

**Table of Contents***Quarter Ended September 30, 2008 compared to the Quarter Ended June 30, 2008*

Tax-equivalent net interest income for the quarter ended September 30, 2008 totaled \$61.3 million, an increase of \$1.3 million, or 2%, as compared to the \$60.0 million recorded in the second quarter of 2008.

For the third quarter of 2008, the net interest margin was 2.74%, down three basis points when compared to the second quarter of 2008. The core net interest margin, which excludes the net interest expense related to the Company's junior subordinated debentures and the interest expense related to the repurchases of common stock, was 2.97% for the third quarter of 2008 and 3.02% for the second quarter of 2008.

The yield on total earning assets for the third quarter of 2008 was 5.68% as compared to the 5.84% in the second quarter of 2008. The third quarter of 2008 yield on loans was 5.89%, a 23 basis point decrease when compared to the second quarter 2008 yield of 6.12%. The decline in loan yield was primarily attributable to lower yields at FIFC and interest reversed on loans placed in nonaccrual status during the third quarter of 2008. The yield on liquidity management assets in the third quarter of 2008 was 4.70% compared to 4.56% in the second quarter of 2008.

The rate paid on interest-bearing liabilities decreased to 3.16% in the third quarter of 2008 as compared to 3.31% in the second quarter of 2008. The cost of interest-bearing deposits decreased in the third quarter of 2008 to 2.98% compared to 3.14% in the second quarter of 2008.

The rate paid on wholesale funding, consisting of Federal Home Loan Bank of Chicago advances, notes payable, subordinated notes, other borrowings and junior subordinated debentures, decreased to 4.24% in the third quarter of 2008 compared to 4.29% in the second quarter of 2008. The Company utilizes certain borrowing sources to fund the additional capital requirements of the Banks, manage capital, manage interest rate risk position and for general corporate purposes.

The higher level of net interest income recorded in the third quarter of 2008 compared to the second quarter of 2008 was offset by continued margin compression. Higher levels of interest reversed on loans placed in nonaccrual status, higher average balances of nonaccrual loans and lower contributions from net free funds as a result of lower interest rates caused the margin to decline by three basis points. Average earning asset growth of \$185 million in the third quarter of 2008 compared to the second quarter of 2008 was generated entirely in the loan portfolio. This growth was funded by a \$64 million increase in the average balances of Savings, NOW, MMA and Wealth Management deposits, an increase in the average balance of retail certificates of deposit of \$196 million, an increase in the average balance of net free funds of \$4 million, decreases in the average balance of wholesale borrowings (primarily notes payable at the holding company) of \$39 million and the average balance of brokered certificates of deposit of \$40 million. At September 30, 2008, \$191 million of retail deposits are held in the Company's MaxSafe suite of products (certificates of deposit, MMA and NOW). MaxSafe is an investment alternative that provides up to 15 times (currently \$3.75 million for interest-bearing deposits) the FDIC insurance security of a traditional banking deposit by depositing a customer's funds across all 15 of the Company's community banks.

The average loan-to-average deposit ratio was 94.1% in the third quarter of 2008 compared to 94.6% in the second quarter of 2008. The higher nature of this ratio as compared to the Company's target range of 85% to 90% is primarily a result of the strong commercial and commercial real estate loan growth combined with a restricted market for loan sales and securitizations.

**Table of Contents**

The following table presents a summary of the Company's net interest income and related net interest margins, calculated on a fully taxable equivalent basis, for the first nine months of 2008 as compared to the first nine months of 2007:

(Dollars in thousands)	For the Nine Months Ended September 30, 2008			For the Nine Months Ended September 30, 2007		
	Average	Interest	Rate	Average	Interest	Rate
Liquidity management assets <sup>(1) (2) (8)</sup>	\$ 1,493,511	\$ 53,114	4.75%	\$ 1,715,848	\$ 66,247	5.16%
Other earning assets <sup>(2) (3) (8)</sup>	23,530	933	5.30	25,006	1,516	8.11
Loans, net of unearned income <sup>(2) (4) (8)</sup>	7,171,467	336,750	6.27	6,754,972	394,340	7.81
Total earning assets <sup>(8)</sup>	\$ 8,688,508	\$ 390,797	6.01%	\$ 8,495,826	\$ 462,103	7.27%
Allowance for loan losses	(54,352)			(48,090)		
Cash and due from banks	128,045			131,185		
Other assets	883,859			827,075		
Total assets	\$ 9,646,060			\$ 9,405,996		
Interest-bearing deposits	\$ 6,927,829	\$ 168,697	3.25%	\$ 6,955,768	\$ 223,949	4.30%
Federal Home Loan Bank advances	434,528	13,696	4.21	396,869	13,008	4.38
Notes payable and other borrowings	389,882	8,331	2.85	279,637	9,011	4.31
Subordinated notes	75,000	2,716	4.76	75,000	3,873	6.81
Junior subordinated debentures	249,594	13,643	7.18	249,760	13,887	7.33
Total interest-bearing liabilities	\$ 8,076,833	\$ 207,083	3.42%	\$ 7,957,034	\$ 263,728	4.43%
Non-interest bearing deposits	661,787			644,576		
Other liabilities	150,639			75,427		
Equity	756,801			728,959		
Total liabilities and shareholders' equity	\$ 9,646,060			\$ 9,405,996		
Interest rate spread <sup>(5) (8)</sup>			2.59%			2.84%
Net free funds/contribution <sup>(6)</sup>	\$ 611,675		0.24	\$ 538,792		0.29
Net interest income/Net interest margin <sup>(8)</sup>		\$ 183,714	2.83%		\$ 198,375	3.13%
Core net interest margin <sup>(7) (8)</sup>			3.08%			3.39%

(1) Liquidity  
management

*assets include available-for-sale securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements.*

- (2) *Interest income on tax-advantaged loans, trading account securities and securities reflects a tax-equivalent adjustment based on a marginal federal corporate tax rate of 35%. The total adjustments for the nine months ended September 30, 2008 and 2007 were \$1.9 million and \$2.3 million, respectively.*
- (3) *Other earning assets include brokerage customer receivables and trading account securities.*
- (4) *Loans, net of unearned income, include mortgages held-for-sale and non-accrual loans.*
- (5) *Interest rate spread is the difference between the yield earned on earning assets and the rate paid*

*on  
interest-bearing  
liabilities.*

*(6) Net free funds are the difference between total average earning assets and total average interest-bearing liabilities. The estimated contribution to net interest margin from net free funds is calculated using the rate paid for total interest-bearing liabilities.*

*(7) The core net interest margin excludes the effect of the net interest expense associated with Wintrust's junior subordinated debentures and the interest expense incurred to fund common stock repurchases.*

*(8) See Supplemental Financial Measures/Ratios for additional information on this performance measure/ratio.*

**Table of Contents***Nine Months Ended September 30, 2008 compared to the Nine Months Ended September 30, 2007*

Tax-equivalent net interest income for the nine months ended September 30, 2008 totaled \$183.7 million, a decrease of \$14.7 million, or 7%, as compared to the \$198.4 million recorded in the first nine months of 2007.

For the first nine months of 2008, the net interest margin was 2.83%, down 30 basis points when compared to the first nine months of 2007. The core net interest margin, which excludes the net interest expense related to Wintrust's junior subordinated debentures and the interest expense related to the common stock repurchases, was 3.08% for the first nine months of 2008 and 3.39% for the same period of 2007.

The yield on total earning assets for the first nine months of 2008 was 6.01% as compared to 7.27% in the first nine months of 2007. The first nine months of 2008 yield on loans was 6.27%, a 154 basis point decrease when compared to the prior year first nine months yield of 7.81%. The liquidity management assets yield in the first nine months of 2008 was 4.75% compared to 5.16% in the first nine months of 2007.

The rate paid on interest-bearing liabilities decreased to 3.42% in the first nine months of 2008 as compared to 4.43% in the first nine months of 2007. The cost of interest-bearing deposits decreased in the first nine months of 2008 to 3.25% compared to 4.30% in the first nine months of 2007. The rate paid on wholesale funding, consisting of Federal Home Loan Bank of Chicago advances, notes payable, subordinated notes, other borrowings and junior subordinated debentures, decreased to 4.43% in the first nine months of 2008 compared to 5.28% in the first nine months of 2007. The Company utilizes certain borrowing sources to fund the additional capital requirements of the subsidiary banks, manage capital, manage interest risk position and for general corporate purposes.

The lower levels of net interest income and net interest margin in the first nine months of 2008 were caused by margin compression. During the first nine months of 2008, the cost of interest-bearing deposits declined 105 basis points while the yield on total loans decreased 154 basis points. This interest-rate spread compression combined with a five basis point reduction in the contribution from net free funds contributed to the 30 basis point decline in net interest margin. Year-to-date average loan growth of \$416 million in 2008 compared to 2007 was funded by a \$346 million increase in the year-to-date average balances of Savings, NOW, MMA and Wealth Management deposits, an increase in the year-to-date average balance of net free funds of \$73 million, an increase in the year-to-date average balance of wholesale borrowings (primarily repurchase agreements) of \$148 million, reduced year-to-date average balances of liquidity management assets and other earning assets of \$224 million, offset by decreases in the year-to-date average balance of retail certificates of deposit of \$340 million and brokered certificates of deposit of \$34 million.

*Analysis of Changes in Tax-equivalent Net Interest Income*

The following table presents an analysis of the changes in the Company's tax-equivalent net interest income comparing the three-month periods ended September 30, 2008 and June 30, 2008, the nine-month periods ended September 30, 2008 and September 30, 2007 and the three-month periods ended September 30, 2008 and September 30, 2007. The reconciliations set forth the changes in the tax-equivalent net interest income as a result of changes in volumes, changes in rates and differing number of days in each period.

	Third Quarter of 2008 Compared to Second Quarter of 2008	First Nine Months of 2008 Compared to First Nine Months of 2007	Third Quarter of 2008 Compared to Third Quarter of 2007
(Dollars in thousands)			
Tax-equivalent net interest income for comparative period	\$ 59,992	\$ 198,375	\$ 66,941
Change due to mix and growth of earning assets and interest-bearing liabilities (volume)	1,430	10,287	4,644
Change due to interest rate fluctuations (rate)	(817)	(25,672)	(10,328)
Change due to number of days in each period	652	724	



<b>Tax-equivalent net interest income for the period ended September 30, 2008</b>	<b>\$ 61,257</b>	<b>\$ 183,714</b>	<b>\$ 61,257</b>
---	------------------	-------------------	------------------

37

---

**Table of Contents****Non-interest Income**

For the third quarter of 2008, non-interest income totaled \$21.9 million and increased \$10.4 million, or 90%, compared to the third quarter of 2007. On a year-to-date basis, non-interest income totaled \$79.5 million and increased \$27.4 million, or 52%, compared to the same period in 2007. The increase for the quarterly and year-to-date periods were primarily attributable to a higher level of fees from covered call options and higher mortgage banking income.

The following table presents non-interest income by category for the periods presented:

(Dollars in thousands)	<b>Three Months Ended</b>		\$	%
	<b>September 30,</b>			
	<b>2008</b>	2007	Change	Change
Brokerage	\$ 4,354	\$ 4,727	\$ (373)	(8)%
Trust and asset management	2,690	2,904	(214)	(7)
Total wealth management	7,044	7,631	(587)	(8)
Mortgage banking	4,488	(3,122)	7,610	N/M
Service charges on deposit accounts	2,674	2,139	535	25
Gain on sales of premium finance receivables	456		456	N/M
Administrative services	803	980	(177)	(18)
Gains (losses) on available-for-sale securities, net	920	(76)	996	N/M
Other:				
Fees from covered call options	2,723	56	2,667	N/M
Bank Owned Life Insurance	478	2,205	(1,727)	(78)
Miscellaneous	2,329	1,724	605	35
Total other	5,530	3,985	1,545	N/M
Total non-interest income	\$ 21,915	\$ 11,537	\$ 10,378	90%

(Dollars in thousands)	<b>Nine Months Ended</b>		\$	%
	<b>September 30,</b>			
	<b>2008</b>	2007	Change	Change
Brokerage	\$ 14,339	\$ 14,882	\$ (543)	(4)%
Trust and asset management	8,341	8,139	202	2
Total wealth management	22,680	23,021	(341)	(1)
Mortgage banking	18,120	9,095	9,025	99
Service charges on deposit accounts	7,612	6,098	1,514	25
Gain on sales of premium finance receivables	2,163	444	1,719	N/M
Administrative services	2,271	3,041	(770)	(25)
(Losses) gains on available-for-sale securities, net	(553)	163	(716)	N/M
Other:				
Fees from covered call options	21,586	935	20,651	N/M
Bank Owned Life Insurance	1,941	4,006	(2,065)	(52)
Miscellaneous	3,659	5,317	(1,658)	(31)

Total other	<b>27,186</b>	10,258	16,928	N/M
Total non-interest income	<b>\$ 79,479</b>	\$ 52,120	\$ 27,359	52%

*N/M = Not Meaningful*

Wealth management is comprised of the trust and asset management revenue of WHTC and the asset management fees, brokerage commissions, trading commissions and insurance product commissions at WHI and WHAMC. Wealth management totaled \$7.0 million in the third quarter of 2008 and decreased \$587,000, or 8%, compared to the same period in 2007. For the nine months ended September 30, 2008, wealth management decreased \$341,000, or 1%, compared to the same period last year. Decreased asset valuations due to the recent equity market declines have hindered the revenue growth from trust and asset management activities. Continued uncertainties surrounding the equity markets overall have slowed the growth of the brokerage component of wealth management revenue.

**Table of Contents**

Mortgage banking includes revenue from activities related to originating, selling and servicing residential real estate loans for the secondary market. For the quarter ended September 30, 2008, this revenue source totaled \$4.5 million, an increase of \$7.6 million when compared to the loss of \$3.1 million in the third quarter of 2007. For the nine months ended September 30, 2008, mortgage banking revenue increased \$9.0 million compared to the first nine months of 2007. The mortgage banking revenue recorded in the third quarter of 2007 included \$5.5 million for estimated losses related to recourse obligations on residential mortgage loans sold to investors and \$1.2 million fair market value adjustment on residential mortgage loans held for sale. The remainder of the mortgage banking increase for the current quarter and nine month period is a result of higher gains recognized on mortgage loans sold. Future growth of mortgage banking is impacted by the interest rate environment and current residential housing conditions and will continue to be dependent upon both. A continuation of the existing depressed residential real estate environment may hamper mortgage banking production growth. Additionally, see Note 2 of the Financial Statements presented under Item 1 of this report for a discussion of the Company's adoption of Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115.

Service charges on deposit accounts totaled \$2.7 million for the third quarter of 2008, an increase of \$535,000, or 25%, when compared to the same quarter of 2007. On a year-to-date basis, service charges on deposit accounts totaled \$7.6 million, an increase of \$1.5 million, or 25%, when compared to the same period of 2007. The majority of deposit service charges relates to customary fees on overdrawn accounts and returned items. The level of service charges received is substantially below peer group levels, as management believes in the philosophy of providing high quality service without encumbering that service with numerous activity charges.

Gain on sales of premium finance receivables results from the Company's sales of premium finance receivables to unrelated third parties. In the first nine months of 2008, approximately 90% of the receivables originated by FIFC were purchased by the Banks to more fully utilize their lending capacity. However, from the third quarter of 2006 to the third quarter of 2007, all of the receivables originated by FIFC were purchased by the Banks. In the fourth quarter of 2007, due to the Company's average loan-to-average deposit ratio being consistently above the target range of 85% to 90%, the Company reinstated its program of selling premium finance receivables, with servicing retained, to unrelated third parties. Having a program in place to sell premium finance receivables to third parties allows the Company to execute its strategy to be asset-driven while providing the benefits of additional sources of liquidity and revenue.

In the third quarter and first nine months of 2008, the Company sold \$33.6 million and \$217.8 million, respectively, of premium finance receivables to unrelated third parties and recognized gains of \$456,000 and \$2.2 million, respectively. The Company did not sell premium finance receivables to unrelated third parties in the third quarter and first nine months of 2007 but did recognize gains of \$444,000 in the first nine months of 2007 related to clean up calls and excess cash flows on loans previously sold. Recognized gains related to sales activity are significantly influenced by the spread between the yield on the loans sold and the rate passed on to the purchaser. The yield on loans sold and the rate passed on to the purchaser typically do not react in a parallel fashion, therefore causing the spreads to vary from period to period. This interest rate spread averaged 5.09% to 5.50% in the first nine months of 2008.

The Company continues to maintain an interest in the loans sold and establishes a servicing asset, interest only strip and a recourse obligation upon each sale. Recognized gains, recorded in accordance with SFAS 140, as well as the Company's retained interests in these loans are based on the Company's projection of cash flows that will be generated from the loans. The cash flow model incorporates the amounts contractually due from customers, including an estimate of late fees, the amounts due to the purchaser of the loans, fees paid to agents as well as estimates of the terms of the loans and credit losses. Significant differences in actual cash flows and the projected cash flows can cause impairment to the servicing asset and interest only strip as well as adjustments to the recourse obligation. The Company typically makes a clean up call by repurchasing the remaining loans in the pools sold after approximately ten months from the sale date. Upon repurchase, the loans are recorded in the Company's premium finance receivables portfolio and any remaining balance of the Company's retained interest is recorded as an adjustment to the gain on sale of premium finance receivables. The Company continuously monitors the performance of the loan pools to the projections and adjusts the assumptions in its cash flow model when warranted.



**Table of Contents**

At September 30, 2008, premium finance receivables sold and serviced for others for which the Company retains a recourse obligation related to credit losses totaled \$101.7 million. The recourse obligation is estimated in computing the net gain on the sale of the premium finance receivables. At September 30, 2008, the recourse obligation carried in other liabilities was approximately \$136,000. At September 30, 2007, there were no outstanding premium finance receivables sold and serviced for others for which the Company needed to retain a recourse obligation related to credit losses. Credit losses incurred on loans sold are applied against the recourse obligation liability that is established at the date of sale. Credit losses, net of recoveries, in the first nine months of 2008 and 2007 for premium finance receivables sold and serviced for others, totaled \$225,000 and \$139,000, respectively. At September 30, 2008, non-performing loans related to this sold portfolio were approximately \$4.5 million, or 4.39%, of the sold loans. Ultimate losses on premium finance receivables are substantially less than the non-performing loans for the reasons noted in the Non-performing Premium Finance Receivables portion of the Asset Quality section of this report. Administrative services revenue contributed by Tricom totaled \$803,000 for the third quarter of 2008, a decrease of \$177,000, or 18%, when compared to the same quarter of 2007. On a year-to-date basis, administrative services revenue totaled \$2.3 million, a decrease of \$770,000, or 25%, when compared to the same period of 2007. This revenue comprises income from administrative services, such as data processing of payrolls, billing and cash management services to temporary staffing service clients located throughout the United States. Tricom also earns interest and fee income from providing high-yielding, short-term accounts receivable financing to this same client base, which is included in the net interest income category. Tricom's revenue source continues to be hampered by competitive pricing and current economic conditions.

The Company recognized \$920,000 of net gains on available-for-sale securities in the third quarter of 2008 compared to net losses of \$76,000 in the prior year quarter. On a year-to-date basis, the Company recognized \$553,000 of net losses on available-for-sale securities compared to net gains of \$163,000 for the same period in 2007. For the quarter and nine months ended September 30, 2008, the Company recognized \$2.1 million and \$4.2 million, respectively, of non-cash other-than-temporary impairment charges on certain corporate debt investment securities. See Note 4 of the Financial Statements presented under Item 1 of this report for details of other-than-temporary impairment charges.

Fees from covered call option transactions were \$2.7 million in the third quarter of 2008 compared to \$56,000 in the third quarter of 2007. On a year-to-date basis, the Company recognized fee income of \$21.6 million in 2008 and \$935,000 in 2007. The interest rate environment in 2008 has been conducive to entering into a significantly higher level of covered call option transactions than in the first nine months of 2007. During the first nine months of 2008, call option contracts were written against \$2.7 billion of underlying securities compared to \$305 million in the first nine months of 2007. The same security may be included in this total more than once to the extent that multiple option contracts were written against it if the initial option contracts were not exercised. The Company writes call options with terms of less than three months against certain U.S. Treasury and agency securities held in its portfolio for liquidity and other purposes. These call option transactions are designed to increase the total return associated with the investment securities portfolio and do not qualify as hedges pursuant to SFAS 133. There were no outstanding call options at September 30, 2008, December 31, 2007 or September 30, 2007.

Bank Owned Life Insurance ( BOLI ) income totaled \$478,000 in the third quarter of 2008 compared to \$2.2 million in the same period of 2007. BOLI income totaled \$1.9 million for the first nine months of 2008 compared to \$4.0 million for the same period of 2007. In the third quarter of 2007, the Company received a non-taxable \$1.4 million death benefit payment. The Company originally purchased BOLI to consolidate existing term life insurance contracts of executive officers and to mitigate the mortality risk associated with death benefits provided for in executive employment contracts and later in connection with certain deferred compensation arrangements. As of September 30, 2008, the Company's recorded investment in BOLI was \$86.7 million and is included in other assets.

Miscellaneous other non-interest income includes service charges and fees and miscellaneous income and totaled \$2.3 million in the third quarter of 2008 compared to \$1.7 million in the third quarter of 2007. On a year-to-date basis, miscellaneous other non-interest income totaled \$3.7 million in 2008 and \$5.3 million in 2007. The lower miscellaneous other non-interest income for the nine months of 2008 compared to the same period in the prior year is primarily the result of the Company recording a \$948,000 non-cash other-than-temporary impairment charge on certain investment partnerships in the first quarter of 2008 coupled with other losses realized on equity method

investment partnerships.

**Table of Contents****Non-interest Expense**

Non-interest expense for the third quarter of 2008 totaled \$63.0 million and increased approximately \$3.5 million, or 6%, from the third quarter 2007 total of \$59.5 million. On a year-to-date basis, non-interest expense totaled \$190.4 million and increased \$11.0 million, or 6%, compared to the same period in 2007.

The following table presents non-interest expense by category for the periods presented:

	<b>Three Months Ended</b>		\$ Change	% Change
	<b>September 30, 2008</b>	September 30, 2007		
(Dollars in thousands)				
Salaries and employee benefits	<b>\$ 35,823</b>	\$ 34,256	\$ 1,567	5%
Equipment	<b>4,050</b>	3,910	140	4
Occupancy, net	<b>5,666</b>	5,303	363	7
Data processing	<b>2,850</b>	2,645	205	8
Advertising and marketing	<b>1,343</b>	1,515	(172)	(11)
Professional fees	<b>2,195</b>	1,757	438	25
Amortization of other intangible assets	<b>781</b>	964	(183)	(19)
Other:				
Commissions 3rd party brokers	<b>985</b>	924	61	7
Postage	<b>1,067</b>	948	119	13
Stationery and supplies	<b>750</b>	741	9	1
FDIC insurance	<b>1,344</b>	1,067	277	26
Miscellaneous	<b>6,130</b>	5,457	673	12
Total other	<b>10,276</b>	9,137	1,139	12
Total non-interest expense	<b>\$ 62,984</b>	\$ 59,487	\$ 3,497	6%

	<b>Nine Months Ended</b>		\$ Change	% Change
	<b>September 30, 2008</b>	September 30, 2007		
(Dollars in thousands)				
Salaries and employee benefits	<b>\$ 109,471</b>	\$ 105,233	\$ 4,238	4%
Equipment	<b>12,025</b>	11,329	696	6
Occupancy, net	<b>16,971</b>	16,085	886	6
Data processing	<b>8,566</b>	7,699	867	11
Advertising and marketing	<b>3,709</b>	4,106	(397)	(10)
Professional fees	<b>6,490</b>	5,045	1,445	29
Amortization of other intangible assets	<b>2,348</b>	2,897	(549)	(19)
Other:				
Commissions 3rd party brokers	<b>2,967</b>	2,949	18	1
Postage	<b>3,108</b>	2,767	341	12
Stationery and supplies	<b>2,247</b>	2,310	(63)	(3)
FDIC insurance	<b>3,919</b>	2,456	1,463	60
Miscellaneous	<b>18,581</b>	16,493	2,088	13
Total other	<b>30,822</b>	26,975	3,847	14



Total non-interest expense	<b>\$ 190,402</b>	\$ 179,369	\$ 11,033	6%
----------------------------	-------------------	------------	-----------	----

Salaries and employee benefits comprised 57% and 58% of total non-interest expense in the third quarter of 2008 and 2007, respectively, while they were 57% and 59% of total non-interest expense for the nine months ended September 30, 2008 and 2007, respectively. Salaries and employee benefits expense increased \$1.6 million, or 5%, and \$4.2 million, or 4%, in the third quarter and first nine months of 2008, respectively, compared to the same periods in 2007 primarily from increases in base compensation.

**Table of Contents**

The combined equipment and occupancy expense for the third quarter of 2008 was \$9.7 million, an increase of \$503,000, or 5%, compared to the same period of 2007. On a year-to-date basis, the combined equipment and occupancy expense was \$29.0 million in 2008, an increase of \$1.6 million, or 6%, compared to the same period of 2007.

Professional fees include legal, audit and tax fees, external loan review costs and normal regulatory exam assessments. Professional fees for the third quarter of 2008 were \$2.2 million, and increase of \$438,000, or 25%, compared to the same period of 2007. On a year-to-date basis, professional fees were \$6.5 million, an increase of \$1.4 million, or 29%, compared to the same period of 2007. These increases are primarily a result of increased legal costs related to non-performing loans.

FDIC insurance totaled \$1.3 million in the third quarter of 2008, an increase of \$277,000, or 26%, compared to \$1.1 million in the third quarter of 2007. On a year-to-date basis, FDIC insurance totaled \$3.9 million, an increase of \$1.5 million, or 60%, compared to the same period of 2007. The significant increase in 2008 is a result of a higher rate structure imposed on all financial institutions beginning in 2007. The Banks, like most banks, received credits for overcharges by the FDIC in past years, effectively reducing their premiums in 2007.

Miscellaneous expense includes expenses such as ATM expenses, other real estate owned ( OREO ) expenses, correspondent bank charges, directors fees, telephone, travel and entertainment, corporate insurance and dues and subscriptions. Miscellaneous expenses in the third quarter of 2008 increased \$673,000, or 12%, compared to the same period in the prior year primarily due to a \$257,000 increase in OREO expenses. On a year-to-date basis, miscellaneous expenses increased \$2.1 million, or 13%, primarily due to a \$514,000 increase in OREO expenses and approximately \$1.4 million reduction in deferred loan origination costs (in accordance with FAS 91) primarily due to the adoption of FAS 159 on January 1, 2008 for Mortgages Held for Sale originated by the Company s mortgage subsidiary. Origination costs are no longer deferred on mortgage loans originated for sale at this subsidiary with the impact being higher current operating expenses (as reflected in the miscellaneous expense component) offset by higher levels of gains recognized on the sale of the loans to the end investors (due to the lower cost basis of the loan).

**Income Taxes**

The Company s effective tax rate for the third quarter of 2008 was 45.8% as compared to 28.5% for the third quarter of 2007. For the nine months ended September 30, 2008 and 2007, the Company s effective tax rate was 33.6% and 33.5%, respectively. The increase in the effective tax rate in the third quarter of 2008 as compared to the third quarter of 2007 is a result of higher level of tax-advantaged income in the 2007 period and a lower level of pre-tax net income (loss) in the 2008 period. The higher level of tax-advantaged income in the 2007 period was primarily due to an increase in BOLI income in the period.

**Table of Contents****Operating Segment Results**

As described in Note 9 to the Consolidated Financial Statements, the Company's operations consist of four primary segments: banking, premium finance, Tricom and wealth management. The Company's profitability is primarily dependent on the net interest income, provision for credit losses, non-interest income and operating expenses of its banking segment. The net interest income of the banking segment includes interest income and related interest costs from portfolio loans that were purchased from the premium finance segment. For purposes of internal segment profitability analysis, management reviews the results of its premium finance segment as if all loans originated and sold to the banking segment were retained within that segment's operations. Similarly, for purposes of analyzing the contribution from the wealth management segment, management allocates the net interest income earned by the banking segment on deposit balances of customers of the wealth management segment to the wealth management segment. (See "Wealth management deposits" discussion in Deposits section of this report for more information on these deposits.)

The banking segment's net interest income for the quarter ended September 30, 2008 totaled \$59.0 million as compared to \$65.8 million for the same period in 2007, a decrease of \$6.9 million, or 10%. This decrease primarily resulted from margin compression as certain variable rate retail deposit products were unable to decline at the same magnitude as variable rate earning assets. The Company has made progress in shifting its mix of retail deposits away from certificates of deposit into lower cost, more variable rate NOW, savings, money market and wealth management deposits. The banking segment's non-interest income totaled \$14.3 million in the third quarter of 2008, an increase of \$11.3 million, or 372%, when compared to the third quarter of 2007 total of \$3.0 million. The mortgage banking revenue component of non-interest income was \$4.5 million in the third quarter of 2008, which increased \$7.6 million, when compared to the loss of \$3.1 million in the third quarter of 2007. Additionally, in the third quarter of 2008, the Company recognized \$2.7 million more in fees on covered call options compared to the same period in the prior year. The banking segment's net income for the quarter ended September 30, 2008 totaled \$1.4 million, a decrease of \$11.2 million, or 89%, as compared to the third quarter of 2007 total of \$12.6 million. This decrease was primarily the result of a higher provision for credit losses in the third quarter of 2008 as compared to the same period in the prior year. On a year-to-date basis, net interest income totaled \$177.6 million for the first nine months of 2008, a decrease of \$16.8 million, or 9%, as compared to the \$194.4 million recorded in the first nine months last year. This decrease was caused by margin compression. Non-interest income increased 126% to \$55.4 million in the first nine months of 2008 compared to the first nine months of 2007 as a result of increased fees from covered call options and higher mortgage banking revenue. The banking segment's after-tax profit for the nine months ended September 30, 2008, totaled \$30.9 million, a decrease of \$16.2 million, or 34%, as compared to the prior year total of \$47.1 million, primarily as a result of a higher provision for credit losses in 2008 compared to 2007.

Net interest income for the premium finance segment totaled \$16.2 million for the quarter ended September 30, 2008, which was comparable to the same period in 2007. The premium finance segment's non-interest income totaled \$456,000 for the quarter ended September 30, 2008, which resulted from gains on sales of premium finance receivables and clean-up calls on previous sales. There were no sales of premium finance receivables to unrelated third party financial institutions or clean-up calls on previous sales in the third quarter of 2007. Net after-tax profit of the premium finance segment totaled \$7.7 million and \$7.8 million for the quarters ended September 30, 2008 and 2007, respectively. On a year-to-date basis, net interest income totaled \$49.1 million for the first nine months of 2008, an increase of \$3.6 million, or 8%, as compared to the \$45.5 million recorded in the same period last year. Non-interest income increased \$1.7 million to \$2.2 million in the first nine months of 2008 as a result of sales of premium finance receivables to unrelated third party financial institutions. There were no such sales in the first nine months of 2007. The premium finance segment's after-tax profit for the nine months ended September 30, 2008, totaled \$23.9 million, an increase of \$1.6 million, or 7%, as compared to the prior year total of \$22.3 million.

**Table of Contents**

The Tricom segment data reflects the business associated with short-term accounts receivable financing and value-added out-sourced administrative services, such as data processing of payrolls, billing and cash management services, which Tricom provides to its clients in the temporary staffing industry. The segment's net interest income was \$851,000 in the third quarter of 2008 and \$999,000 in the third quarter of 2007. Non-interest income for the third quarter of 2008 was \$802,000 compared to \$980,000 in the third quarter of 2007. Revenue trends at Tricom reflect the general staffing trends of the economy and the entrance of new competitors in most market places served by Tricom. The segment's net income was \$223,000 in the third quarter of 2008 compared to \$355,000 in the prior year quarter. On a year-to-date basis, net interest income totaled \$2.6 million for the first nine months of 2008 and \$2.9 million for the first nine months of 2007. Non-interest income decreased \$770,000 to \$2.3 million in the first nine months of 2008 compared to the same period last year. The Tricom segment's after-tax profit for the nine months ended September 30, 2008, totaled \$571,000 a decrease of \$444,000, or 44%, as compared to \$1.0 million in the first nine months of 2007.

The wealth management segment reported net interest income of \$4.5 million for the third quarter of 2008 compared to \$3.8 million in the same quarter of 2007. Net interest income is comprised of the net interest earned on brokerage customer receivables at WHI and an allocation of the net interest income earned by the banking segment on non-interest bearing and interest-bearing wealth management customer account balances on deposit at the Banks (wealth management deposits). The allocated net interest income included in this segment's profitability was \$4.2 million (\$2.6 million after tax) in the third quarter of 2008 compared to \$3.4 million (\$2.1 million after tax) in the third quarter of 2007. The increase in net interest income was primarily a result of the growth in average wealth management deposits. This segment recorded non-interest income of \$8.8 million for the third quarter of 2008 compared to \$9.6 million for the third quarter of 2007. The wealth management segment's net income totaled \$2.4 million for the third quarter of 2008 compared to net income of \$2.3 million for the third quarter of 2007. On a year-to-date basis, net interest income totaled \$13.8 million for the first nine months of 2008, an increase of \$3.8 million or 37%, as compared to the \$10.0 million recorded in the same period last year. The allocated net interest income included in this segment's profitability was \$13.0 million (\$8.0 million after tax) in the first nine months of 2008 and \$9.1 million (\$5.6 million after tax) in the first nine months of 2007. Non-interest income decreased \$214,000 to \$28.5 million in the first nine months of 2008 compared to the same period last year. This segment's after-tax net income for the nine months ended September 30, 2008, totaled \$8.1 million, an increase of \$2.4 million, or 42%, compared to the same period last year.

**Table of Contents****FINANCIAL CONDITION**

Total assets were \$9.9 billion at September 30, 2008, representing an increase of \$399.8 million, or 4% when compared to the \$9.5 billion at September 30, 2007 and a decrease of \$58.2 million, or 2% on an annualized basis, when compared to June 30, 2008. The increase in total assets as of September 30, 2008 compared to September 30, 2007 was primarily a result of loan growth. Total funding, which includes deposits, all notes and advances, including the junior subordinated debentures, was \$8.9 billion at September 30, 2008, \$8.7 billion at September 30, 2007 and \$8.9 billion at June 30, 2008. See Notes 4-8 of the Financial Statements presented under Item 1 of this report for additional period-end detail on the Company's interest-earning assets and funding liabilities.

**Interest-Earning Assets**

The following table sets forth, by category, the composition of average earning asset balances and the relative percentage of total average earning assets for the periods presented:

(Dollars in thousands)	Three Months Ended					
	September 30, 2008		June 30, 2008		September 30, 2007	
	Balance	Percent	Balance	Percent	Balance	Percent
Loans:						
Commercial and commercial real estate	\$ 4,612,881	52%	\$ 4,549,505	52%	\$ 4,214,582	50%
Home equity	799,595	9	732,218	8	641,535	8
Residential real estate <sup>(1)</sup>	341,106	4	357,480	4	334,018	4
Premium finance receivables	1,216,153	14	1,131,107	13	1,302,644	16
Indirect consumer loans	212,614	2	224,538	3	251,521	3
Tricom finance receivables	20,668		25,247		31,307	
Other loans	140,828	2	138,222	2	104,249	1
Total loans, net of unearned income	\$ 7,343,845	83%	\$ 7,158,317	82%	\$ 6,879,856	82%
Liquidity management assets <sup>(2)</sup>	1,544,465	17	1,543,795	18	1,551,389	18
Other earning assets <sup>(3)</sup>	21,687		22,519		23,882	
Total average earning assets	\$ 8,909,997	100%	\$ 8,724,631	100%	\$ 8,455,127	100%
Total average assets	\$ 9,881,554		\$ 9,682,454		\$ 9,382,060	
Total average earning assets to total average assets		90%		90%		90%

(1) Residential real estate loans include mortgage loans held-for-sale.

(2) Liquidity management assets include available-for-sale securities, interest earning deposits with banks,

*federal funds sold  
and securities  
purchased under  
resale  
agreements.*

(3) *Other earning  
assets include  
brokerage  
customer  
receivables and  
trading account  
securities.*

Total average earning assets for the third quarter of 2008 increased \$454.9 million, or 5%, to \$8.9 billion, compared to the third quarter of 2007, and increased \$185.4 million, or 9% on an annualized basis, compared to the second quarter of 2008. The ratio of total average earning assets as a percent of total average assets at September 30, 2008 was unchanged from the prior quarter and the third quarter of 2007.

Total average loans during the third quarter of 2008 increased \$464.0 million, or 7%, over the previous year third quarter. Commercial and commercial real estate loans, the largest loan category, represented the majority of the increase in loan balances as the Company increased its business development efforts in this area. Partially offsetting this increase were lower average premium finance receivables which resulted from the Company's decision in the fourth quarter of 2007 to reinstate its program of selling premium finance receivables to unrelated third parties. The Company sold \$33.6 million of premium finance receivables in the third quarter of 2008 while there were no sales in the same quarter of 2007. Average total loans increased \$185.5 million, or 10% on an annualized basis, over the average balance in the second quarter of 2008. The growth of loans from the second quarter of 2008 to the current quarter of 2008 is the result of the Company's continued business development efforts on its core loan portfolio. Average home equity loans increased 37%, on an annualized basis, from the second quarter of 2008 primarily as a result of new originations since the second quarter of 2008.

**Table of Contents**

As discussed in the Overview and Strategy section of this report, in the third quarter of 2008, the Company ceased the origination of indirect automobile loans. Therefore, the balance of indirect consumer loans will continue to decrease in future periods.

Liquidity management assets include available-for-sale securities, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements. The balances of liquidity management assets can fluctuate based on management's ongoing effort to manage liquidity and for asset liability management purposes.

Other earning assets in the table include brokerage customer receivables and trading account securities at WHI. In the normal course of business, WHI activities involve the execution, settlement, and financing of various securities transactions. WHI's customer securities activities are transacted on either a cash or margin basis. In margin transactions, WHI, under an agreement with the out-sourced securities firm, extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in customer's accounts. In connection with these activities, WHI executes and the out-sourced firm clears customer transactions relating to the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose WHI to off-balance-sheet risk, particularly in volatile trading markets, in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event a customer fails to satisfy its obligations, WHI under an agreement with the outsourced securities firm, may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. WHI seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. WHI monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions when necessary.

(Dollars in thousands)	<b>Average Balances for the Nine Months Ended</b>			
	<b>September 30, 2008</b>		September 30, 2007	
	<b>Balance</b>	<b>Percent</b>	Balance	Percent
Loans:				
Commercial and commercial real estate	<b>\$ 4,544,182</b>	<b>52%</b>	\$ 4,138,344	49%
Home equity	<b>739,717</b>	<b>9</b>	647,667	8
Residential real estate <sup>(1)</sup>	<b>342,615</b>	<b>4</b>	338,597	4
Premium finance receivables	<b>1,157,557</b>	<b>13</b>	1,251,619	15
Indirect consumer loans	<b>224,846</b>	<b>3</b>	248,854	3
Tricom finance receivables	<b>23,544</b>		34,133	
Other loans	<b>139,006</b>	<b>2</b>	95,758	1
Total loans, net of unearned income	<b>7,171,467</b>	<b>83</b>	6,754,972	80
Liquidity management assets <sup>(2)</sup>	<b>1,493,511</b>	<b>17</b>	1,715,848	20
Other earning assets <sup>(3)</sup>	<b>23,530</b>		25,006	
Total average earning assets	<b>\$ 8,688,508</b>	<b>100%</b>	\$ 8,495,826	100%
Total average assets	<b>\$ 9,646,060</b>		\$ 9,405,996	
Total average earning assets to total average assets		<b>90%</b>		90%

(1) Residential real estate loans include mortgage

- loans  
held-for-sale.*
- (2) *Liquidity  
management  
assets include  
available-for-sale  
securities, interest  
earning deposits  
with banks,  
federal funds sold  
and securities  
purchased under  
resale  
agreements.*
- (3) *Other earning  
assets include  
brokerage  
customer  
receivables and  
trading account  
securities.*

Average earning assets for the nine months ended September 30, 2008 increased \$192.7 million, or 2%, over the first nine months of 2007. The ratio of total average earning assets as a percent of total average assets for the nine months ended September 30, 2008 was unchanged from the prior year period. Total average loans increased by \$416.5 million, or 6%, in the first nine months of 2008 compared to the same period of 2007. The growth of loans in 2008 is the result of the Company's continued business development efforts on its core loan portfolio. Commercial and commercial real estate loans, the largest loan category, represented the majority of the increase in loan balances as the Company increased its business development efforts in this area. The increase in loans was partially offset by a decrease in liquidity management assets, due primarily to the maturity of Federal Home Loan Bank bonds during 2007.



**Table of Contents****Deposits**

Total deposits at September 30, 2008, were \$7.8 billion and increased \$251.5 million, or 3%, compared to total deposits at September 30, 2007. See Note 6 to the financial statements of Item 1 of this report for a summary of period end deposit balances.

The following table sets forth, by category, the composition of average deposit balances and the relative percentage of total average deposits for the periods presented:

(Dollars in thousands)	<b>September 30, 2008</b>		<b>Three Months Ended</b>		<b>September 30, 2007</b>	
	<b>Balance</b>	<b>Percent</b>	June 30, 2008 <b>Balance</b>	<b>Percent</b>	<b>Balance</b>	<b>Percent</b>
Non-interest bearing	<b>\$ 678,651</b>	<b>9%</b>	\$ 663,526	9%	\$ 643,338	9%
NOW accounts	<b>1,029,800</b>	<b>13</b>	1,043,670	14	978,120	13
Wealth management						
deposits	<b>599,945</b>	<b>8</b>	623,805	8	544,944	7
Money market accounts	<b>947,033</b>	<b>12</b>	843,724	11	698,072	9
Savings accounts	<b>325,383</b>	<b>4</b>	326,630	4	298,323	4
Time certificates of deposit	<b>4,224,904</b>	<b>54</b>	4,068,608	54	4,372,651	58
<b>Total average deposits</b>	<b>\$ 7,805,716</b>	<b>100%</b>	\$ 7,569,963	100%	\$ 7,535,448	100%

Total average deposits for the third quarter of 2008 were \$7.8 billion, an increase of \$270.3 million, or 4%, from the third quarter of 2007. Total average deposits for the third quarter of 2008 increased \$235.8 million or 12%, on an annualized basis, compared to the second quarter of 2008. This increase was a result of marketing efforts at the Banks to support loan growth. Total time certificates of deposit represented 54% of total average deposits in the third and second quarters of 2008 and 58% in the third quarter of 2007.

Wealth management deposits represent FDIC-insured deposits (primarily money market accounts) at the Banks from customers of the Company's wealth management subsidiaries. Consistent with reasonable interest rate risk parameters, the funds have generally been invested in loan production of the Banks as well as other investments suitable for banks.

**Table of Contents****Other Funding Sources**

Although deposits are the Company's primary source of funding its interest-earning assets, the Company's ability to manage the types and terms of deposits is somewhat limited by customer preferences and market competition. As a result, in addition to deposits and the issuance of equity securities, as well as the retention of earnings, the Company uses several other funding sources to support its growth. These sources include short-term borrowings, notes payable, Federal Home Loan Bank advances, subordinated debt and junior subordinated debentures. The Company evaluates the terms and unique characteristics of each source, as well as its asset-liability management position, in determining the use of such funding sources.

Average total interest-bearing funding, from sources other than deposits and including junior subordinated debentures, totaled \$1.2 billion in the third quarter of 2008, an increase of approximately \$104.0 million compared to the third quarter of 2007 average balance of \$1.1 billion.

The following table sets forth, by category, the composition of average other funding sources for the periods presented:

	<b>Three Months Ended</b>		
	<b>September 30, 2008</b>	June 30, 2008	September 30, 2007
(Dollars in thousands)			
Notes payable	<b>\$ 41,835</b>	\$ 63,468	\$ 59,983
Federal Home Loan Bank advances	<b>438,983</b>	437,642	403,590
Other borrowings:			
Federal funds purchased	<b>7,853</b>	15,767	43,525
Securities sold under repurchase agreements and other	<b>349,223</b>	359,895	226,676
Total other borrowings	<b>357,076</b>	375,662	270,201
Subordinated notes	<b>75,000</b>	75,000	75,000
Junior subordinated debentures	<b>249,552</b>	249,594	249,719
Total other funding sources	<b>\$ 1,162,446</b>	\$ 1,201,366	\$ 1,058,493

Notes payable balances represent the balances on a credit agreement with an unaffiliated bank. This credit facility is available for corporate purposes such as to provide capital to fund growth at existing bank subsidiaries, possible future acquisitions and for other general corporate matters.

FHLB advances provide the Banks with access to fixed rate funds which are useful in mitigating interest rate risk and achieving an acceptable interest rate spread on fixed rate loans or securities.

Securities sold under repurchase agreements represent sweep accounts for certain customers in connection with master repurchase agreements at the Banks and short-term borrowings from brokers. This funding category fluctuates based on customer preferences and daily liquidity needs of the Banks, their customers and the Banks' operating subsidiaries. The Company borrowed \$75.0 million under three separate \$25 million subordinated note agreements. Each subordinated note requires annual principal payments of \$5.0 million beginning in the sixth year of the note and has terms of ten years with final maturity dates in 2012, 2013 and 2015. The first \$5.0 million payment is due in the fourth quarter of 2008. These notes qualify as Tier II regulatory capital.

Junior subordinated debentures were issued to nine trusts by the Company and equal the amount of the preferred and common securities issued by the trusts. Junior subordinated debentures, subject to certain limitations, currently qualify as Tier I regulatory capital. Interest expense on these debentures is deductible for tax purposes, resulting in a cost-efficient form of regulatory capital.

See Notes 7 and 8 of the Financial Statements presented under Item 1 of this report for details of period end balances and other information for these various funding sources. There were no material changes outside the ordinary course

of business in the Company's contractual obligations during the third quarter of 2008 as compared to December 31, 2007.

**Table of Contents****Shareholders Equity**

Total shareholders equity was \$809.3 million at September 30, 2008, reflecting an increase of \$87.4 million since September 30, 2007 and \$69.8 million since the end of 2007. The increase from December 31, 2007, was the result of the retention of approximately \$9.5 million of earnings (net income of \$18.5 million less preferred stock dividends of \$544,000 and common stock dividends of \$8.5 million), a \$49.4 million increase from the issuance of preferred stock, net of issuance costs, a \$4.5 million increase from the issuance of shares of the Company's common stock (and related tax benefit) pursuant to various stock compensation plans and \$7.6 million credited to surplus for stock-based compensation costs, partially offset by a \$153,000 increase in net unrealized losses from available-for-sale securities and the mark-to-market adjustment on cash flow hedges, net of tax, and a \$992,000 cumulative effect adjustment to retained earnings from the adoption of a new accounting standard. See Note 2 of the Financial Statements presented under Item 1 of this report for details on new accounting standards.

The following tables reflect various consolidated measures of capital as of the dates presented and the capital guidelines established by the Federal Reserve Bank for a bank holding company:

	<b>September 30, 2008</b>	June 30, 2008	September 30, 2007
Leverage ratio	<b>8.1%</b>	7.8%	7.8%
Tier 1 capital to risk-weighted assets	<b>9.2</b>	8.7	8.8
Total capital to risk-weighted assets	<b>10.7</b>	10.2	10.4
Total average equity-to-total average assets *	<b>7.8</b>	7.9	7.6

\* *based on  
quarterly  
average  
balances*

	Minimum Capital Requirements	Adequately Capitalized	Well Capitalized
Leverage ratio	4.0%	4.0%	5.0%
Tier 1 capital to risk-weighted assets	4.0	4.0	6.0
Total capital to risk-weighted assets	8.0	8.0	10.0

The Company attempts to maintain an efficient capital structure in order to provide higher returns on equity. Additional capital is required from time to time, however, to support the growth of the organization. The Company's principal sources of funds at the holding company level are dividends from its subsidiaries, borrowings under its loan agreement with an unaffiliated bank and proceeds from the issuance of subordinated debt, junior subordinated debentures and additional equity. Refer to Notes 7 and 8 of the Financial Statements presented under Item 1 of this report for further information on these various funding sources. The issuances of subordinated debt, junior subordinated debentures, preferred stock and additional common stock are the primary forms of regulatory capital that are considered as the Company evaluates its capital position. Management is committed to maintaining the Company's capital levels above the Well Capitalized levels established by the Federal Reserve for bank holding companies.

In August 2008, the Company issued \$50 million of non-cumulative perpetual convertible preferred stock in a private transaction. If declared, dividends on the preferred stock are payable quarterly in arrears at a rate of 8.00% per annum. The shares are convertible into common stock at the option of the holder at a price per share of \$27.38 which is equal to 120% of the average of the midpoint of the intraday high and intraday low trading prices for the Company's common stock for the fifteen consecutive trading day period ended August 22, 2008. On and after August 26, 2010,

the preferred stock will be subject to mandatory conversion into common stock under certain circumstances. In January and July 2008, Wintrust declared semi-annual cash dividends of \$0.18 per common share. In January and July 2007, Wintrust declared semi-annual cash dividends of \$0.16 per common share. The dividend payout ratio (annualized) was 35.9% for the first nine months of 2008 and 15.1% for the first nine months of 2007.

**Table of Contents**

In July 2006, the Company's Board of Directors authorized the repurchase of up to 2.0 million shares of the Company's outstanding common stock over 18 months. Through April 2007, the Company repurchased a total of approximately 1.8 million shares at an average price of \$45.74 per share under the July 2006 share repurchase plan. In April 2007, the Company's Board of Directors terminated the July 2006 authorization and authorized the repurchase of up to an additional 1.0 million shares of the Company's outstanding common stock over 12 months. The Company began to repurchase shares under this authorization in July 2007 and repurchased all 1.0 million shares at an average price of \$37.57 per share during the third and fourth quarters of 2007. In January 2008, the Company's Board of Directors authorized the repurchase of up to an additional 1.0 million shares of the Company's outstanding common stock over the next 12 months. No shares have been repurchased under the January 2008 share repurchase plan.

In October 2008, the U.S. Department of Treasury announced the Capital Purchase Program ( CPP ) under the Emergency Economic Stabilization Act of 2008, pursuant to which the Treasury intends to make perpetual preferred stock investments in participating financial institutions that will qualify as Tier I capital. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications must be submitted by November 14, 2008, and are subject to approval by the Treasury. The perpetual preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the Treasury investment, and a dividend of 9%, thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. Based on the Company's risk-weighted assets as of June 30, 2008, the Company may be eligible to issue approximately \$250 million in new perpetual preferred stock under the program.

**Table of Contents****ASSET QUALITY****Allowance for Credit Losses**

The following table presents a summary of the activity in the allowance for credit losses for the periods presented:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September</b>	September	<b>September</b>	September
	<b>30,</b>	30,	<b>30,</b>	30,
(Dollars in thousands)	<b>2008</b>	2007	<b>2008</b>	2007
<b>Allowance for loan losses at beginning of period</b>	<b>\$ 57,633</b>	\$ 47,392	<b>\$ 50,389</b>	\$ 46,055
<b>Provision for credit losses</b>	<b>24,129</b>	4,365	<b>42,985</b>	8,662
<b>Charge-offs:</b>				
Commercial and commercial real estate loans	<b>13,543</b>	2,239	<b>22,930</b>	4,929
Home equity loans	<b>28</b>		<b>53</b>	133
Residential real estate loans	<b>786</b>		<b>1,004</b>	147
Consumer and other loans	<b>125</b>	65	<b>344</b>	463
Premium finance receivables	<b>1,002</b>	625	<b>2,798</b>	1,760
Indirect consumer loans	<b>292</b>	247	<b>821</b>	527
Tricom finance receivables	<b>40</b>	102	<b>117</b>	152
Total charge-offs	<b>15,816</b>	3,278	<b>28,067</b>	8,111
<b>Recoveries:</b>				
Commercial and commercial real estate loans	<b>216</b>	82	<b>285</b>	1,498
Home equity loans				60
Residential real estate loans				
Consumer and other loans	<b>18</b>	37	<b>82</b>	100
Premium finance receivables	<b>118</b>	115	<b>518</b>	366
Indirect consumer loans	<b>29</b>	44	<b>135</b>	124
Tricom finance receivables				3
Total recoveries	<b>381</b>	278	<b>1,020</b>	2,151
<b>Net charge-offs</b>	<b>(15,435)</b>	(3,000)	<b>(27,047)</b>	(5,960)
<b>Allowance for loan losses at period-end</b>	<b>\$ 66,327</b>	\$ 48,757	<b>\$ 66,327</b>	\$ 48,757
<b>Allowance for lending-related commitments at period-end</b>	<b>\$ 493</b>	\$ 457	<b>\$ 493</b>	\$ 457
<b>Allowance for credit losses at period-end</b>	<b>\$ 66,820</b>	\$ 49,214	<b>\$ 66,820</b>	\$ 49,214

**Annualized net charge-offs by category as****a****percentage of its own respective category's****average:**

Commercial and commercial real estate loans	<b>1.15%</b>	0.21%	<b>0.67%</b>	0.11%
Home equity loans	<b>0.01</b>		<b>0.01</b>	0.02
Residential real estate loans	<b>0.92</b>		<b>0.39</b>	0.06
Consumer and other loans	<b>0.30</b>	0.11	<b>0.25</b>	0.51
Premium finance receivables	<b>0.29</b>	0.16	<b>0.26</b>	0.15
Indirect consumer loans	<b>0.49</b>	0.32	<b>0.41</b>	0.22
Tricom finance receivables	<b>0.78</b>	1.30	<b>0.66</b>	0.59
Total loans, net of unearned income	<b>0.84%</b>	0.17%	<b>0.50%</b>	0.12%

**Net charge-offs as a percentage of the provision for credit losses**

	<b>63.97%</b>	68.72%	<b>62.92%</b>	68.81%
--	---------------	--------	---------------	--------

**Loans at period-end**

		<b>\$ 7,322,545</b>	<b>\$ 6,808,359</b>
--	--	---------------------	---------------------

**Allowance for loan losses as a percentage of loans at period-end**

		<b>0.91%</b>	0.72%
--	--	--------------	-------

**Allowance for credit losses as a percentage of loans at period-end**

		<b>0.91%</b>	0.72%
--	--	--------------	-------

51



**Table of Contents**

Management believes that the loan portfolio is well diversified and well secured, without undue concentration in any specific risk area. Loan quality is continually monitored by management and is reviewed by the Banks' Boards of Directors and their Credit Committees on a monthly basis. Independent external reviews of the loan portfolio are provided by the examinations conducted by regulatory authorities and an independent loan review performed by an entity engaged by the Board of Directors. The amount of additions to the allowance for loan losses, which is charged to earnings through the provision for credit losses, is determined based on management's assessment of the adequacy of the allowance for loan losses. Management evaluates on at least a quarterly basis a variety of factors, including actual charge-offs during the year, historical loss experience, delinquent and other potential problem loans, and economic conditions and trends in the market area in assessing the adequacy of the allowance for loan losses.

As discussed in the Critical Accounting Policies section of this report, in the second quarter of 2008, the Company began allocating the allowance for loan losses to loan portfolio groups based on loan collateral and credit risk rating. The Company maintains its allowance for loan losses at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of internal problem loan identification system ( Problem Loan Report ) loans and actual loss experience, changes in the composition of the loan portfolio, historical loss experience, changes in lending policies and procedures, including underwriting standards and collections, charge-off, and recovery practices, changes in experience, ability and depth of lending management and staff, changes in national and local economic and business conditions and developments, including the condition of various market segments and changes in the volume and severity of past due and classified loans and trends in the volume of non-accrual loans, troubled debt restructurings and other loan modifications. The allowance for loan losses also includes an element for estimated probable but undetected losses and for imprecision in the credit risk models used to calculate the allowance. The Company reviews non-performing loans on a case-by-case basis to allocate a specific dollar amount of reserves, whereas all other loans are reserved for based on loan collateral and assigned credit risk rating reserve percentages. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current environmental factors and economic trends, all of which may be susceptible to significant change. The Company also maintains an allowance for lending-related commitments which relates to certain amounts that the Company is committed to lend but for which funds have not yet been disbursed and is computed using a methodology similar to that used to determine the allowance for loan losses. Loan losses are charged off against the allowance, while recoveries are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more frequently if deemed necessary.

The provision for credit losses totaled \$24.1 million for the third quarter of 2008 and \$4.4 million for the third quarter of 2007. For the quarter ended September 30, 2008, net charge-offs totaled \$15.4 million, an increase from the \$3.0 million of net charge-offs recorded in the same period of 2007. On a ratio basis, annualized net charge-offs as a percentage of average loans were 0.84% in the third quarter of 2008 and 0.17% in the third quarter of 2007.

On a year-to-date basis, the provision for credit losses totaled \$43.0 million for the first nine months of 2008 and \$8.7 million for the first nine months of 2007. Net charge-offs totaled \$27.0 million, an increase from the \$6.0 million of net charge-offs recorded in the same period of 2007. On a ratio basis, annualized net charge-offs as a percentage of average loans were 0.50% in the first nine months of 2008 and 0.12% in the first nine months of 2007. Higher provision and net charge-offs for the first nine months of 2008 and the third quarter of 2008, compared to the same periods in the prior year, primarily resulted from real estate valuations on residential and commercial real estate construction and land development related loans which have become distressed due to lack of sales activity and other factors.

Management believes the allowance for loan losses is adequate to provide for inherent losses in the portfolio. There can be no assurances however, that future losses will not exceed the amounts provided for, thereby affecting future results of operations. The amount of future additions to the allowance for loan losses will be dependent upon management's assessment of the adequacy of the allowance based on its evaluation of economic conditions, changes in real estate values, interest rates, the regulatory environment, the level of past-due and non-performing loans, and other

factors.

**Table of Contents****Past Due and Non-performing Loans**

The following table sets forth Wintrust's non-performing loans at the dates indicated. The information in the table should be read in conjunction with the detailed discussion following the table.

(Dollars in thousands)	September 30, 2008	June 30, 2008	December 31, 2007	September 30, 2007
<b>Loans past due greater than 90 days and still accruing:</b>				
Residential real estate and home equity <sup>(1)</sup>	\$ 1,084	\$ 200	\$ 51	\$ 85
Commercial, consumer and other	6,100	2,259	14,742	2,207
Premium finance receivables	5,903	5,180	8,703	7,204
Indirect consumer loans	877	471	517	279
Tricom finance receivables				
<b>Total past due greater than 90 days and still accruing</b>	<b>13,964</b>	8,110	24,013	9,775
<b>Non-accrual loans:</b>				
Residential real estate and home equity <sup>(1)</sup>	6,214	3,384	3,215	4,465
Commercial, consumer and other	81,997	61,878	33,267	20,452
Premium finance receivables	10,239	13,005	10,725	11,400
Indirect consumer loans	627	389	560	592
Tricom finance receivables		40	74	174
<b>Total non-accrual</b>	<b>99,077</b>	78,696	47,841	37,083
<b>Total non-performing loans:</b>				
Residential real estate and home equity <sup>(1)</sup>	7,298	3,584	3,266	4,550
Commercial, consumer and other	88,097	64,137	48,009	22,659
Premium finance receivables	16,142	18,185	19,428	18,604
Indirect consumer loans	1,504	860	1,077	871
Tricom finance receivables		40	74	174
<b>Total non-performing loans</b>	<b>\$ 113,041</b>	\$ 86,806	\$ 71,854	\$ 46,858
<b>Total non-performing loans by category as a percent of its own respective category's period end balance:</b>				
Residential real estate and home equity <sup>(1)</sup>	0.67%	0.35%	0.36%	0.52%
Commercial, consumer and other	1.83	1.35	1.06	0.52
Premium finance receivables	1.34	1.59	1.80	1.44
Indirect consumer loans	0.75	0.39	0.45	0.34
Tricom finance receivables		0.18	0.27	0.52

<b>Total non-performing loans</b>	<b>1.54%</b>	1.21%	1.06%	0.69%
<b>Allowance for loan losses as a percentage of non-performing loans</b>	<b>58.67%</b>	66.39%	70.13%	104.05%

(1) *Nonaccrual and past due greater than 90 days and still accruing residential mortgage loans held for sale accounted for at lower of cost or market are excluded from the non-performing balances above. These balances totaled approximately \$0 as of September 30, 2008, \$0.2 million as of June 30, 2008 and \$2.0 million as of December 31, 2007. Residential mortgage loans held for sale are accounted for at lower of aggregate cost or fair value, with valuation changes included as adjustments to non-interest income.*

**Table of Contents***Non-performing Residential Real Estate and Home Equity*

The non-performing residential real estate and home equity loans totaled \$7.3 million as of September 30, 2008 compared to \$3.3 million at December 31, 2007 and \$4.6 million as of September 30, 2007. The September 30, 2008 non-performing balance is comprised of \$6.0 million of residential real estate (one credit of \$3.3 million and 16 individual credits totaling \$2.7 million) and \$1.3 million of home equity loans (16 individual credits). On average, this is approximately two non-performing residential real estate loans and home equity loans per chartered bank within the Company. The Company believes control and collection of these loans are very manageable. Management does not expect any material losses from the resolution of any of the credits in this category.

*Non-performing Commercial, Consumer and Other*

The commercial, consumer and other non-performing loan category totaled \$88.1 million as of September 30, 2008 compared to \$48.0 million as of December 31, 2007 and \$22.7 million as of September 30, 2007.

Management is pursuing the resolution of all credits in this category. However, given the current state of the residential real estate market, resolution of certain credits could span a lengthy period of time until market conditions stabilize. Management also believes reserves are adequate to absorb potential losses that may occur upon the ultimate resolution of these credits.

*Non-performing Loan Composition*

The \$95.4 million of non-performing loans classified as residential real estate and home equity, commercial, consumer, and other consumer consists of \$39.1 million of residential real estate construction and land development related loans, \$5.9 million of commercial related loans, \$19.2 million of commercial real estate related loans, \$17.5 million of commercial real estate construction and land development related loans, \$13.4 million of residential real estate and home equity related loans and \$269,000 of consumer related loans. Twelve of these relationships exceed \$2.5 million in outstanding balances, approximating \$69.1 million in total outstanding balances.

*Non-performing Premium Finance Receivables*

The following table presents the level of non-performing premium finance receivables as of the dates indicated, and the amount of net charge-offs for the quarterly periods then ended.

	<b>September 30, 2008</b>	June 30, 2008	December 31, 2007	September 30, 2007
(Dollars in thousands)				
Non-performing premium finance receivables	<b>\$ 16,142</b>	\$ 18,185	\$ 19,428	\$ 18,604
- as a percent of premium finance receivables outstanding	<b>1.34%</b>	1.59%	1.80%	1.44%
Net charge-offs of premium finance receivables	<b>\$ 884</b>	\$ 640	\$ 517	\$ 510
- annualized as a percent of average premium finance receivables	<b>0.29%</b>	0.23%	0.16%	0.16%

The level of non-performing premium finance receivables as a percent of total premium finance receivables at September 30, 2008 is lower than the levels reported at June 30, 2008 and at September 30 and December 31, 2007. Although net charge-offs in this category have increased over the past twelve months, the Company's underwriting standards have remained consistent with its historical conservative standards. We anticipate that net charge-offs and non-performing asset levels in the near term will continue to be at levels that are within acceptable operating ranges for this category of loans. Management is comfortable with administering the collections at this level of non-performing premium finance receivables. As noted below, fluctuations in this category may occur due to timing and nature of account collections from insurance carriers.

**Table of Contents**

The ratio of non-performing premium finance receivables fluctuates throughout the year due to the nature and timing of canceled account collections from insurance carriers. Due to the nature of collateral for premium finance receivables it customarily takes 60-150 days to convert the collateral into cash collections. Accordingly, the level of non-performing premium finance receivables is not necessarily indicative of the loss inherent in the portfolio. In the event of default, Wintrust has the power to cancel the insurance policy and collect the unearned portion of the premium from the insurance carrier. In the event of cancellation, the cash returned in payment of the unearned premium by the insurer should generally be sufficient to cover the receivable balance, the interest and other charges due. Due to notification requirements and processing time by most insurance carriers, many receivables will become delinquent beyond 90 days while the insurer is processing the return of the unearned premium. Management continues to accrue interest until maturity as the unearned premium is ordinarily sufficient to pay-off the outstanding balance and contractual interest due.

*Non-performing Indirect Consumer Loans*

Total non-performing indirect consumer loans were \$1.5 million at September 30, 2008, compared to \$1.1 million at December 31, 2007 and \$871,000 at September 30, 2007. The ratio of these non-performing loans to total indirect consumer loans was 0.75% at September 30, 2008 compared to 0.45% at December 31, 2007 and 0.34% at September 30, 2007. As noted in the Allowance for Credit Losses table, net charge-offs (annualized) as a percent of total indirect consumer loans were 0.49% for the quarter ended September 30, 2008 compared to 0.32% in the same period in 2007. The level of non-performing and net charge-offs of indirect consumer loans continue to be below standard industry ratios for this type of lending.

At the beginning of the third quarter the Company ceased the origination of indirect automobile loans. This niche business has served the Company well over the past 12 years in helping de-novo banks quickly, and profitably, grow into their physical structures. Competitive pricing pressures have significantly reduced the long-term potential profitably of this niche business. Given the current economic environment, the retirement of the founder of this niche business and the Company's belief that interest rates may rise over the longer-term, exiting the origination of this business was deemed to be in the best interest of the Company at this time. The Company continues to service its existing portfolio during the duration of the credits and does not anticipate any change in historical credit trends for this niche business given this decision.

*Other Real Estate Owned*

The table below presents a summary of other real estate owned as of September 30, 2008 and shows the changes in the balance from June 30, 2008 for each property type:

(Dollars in thousands)	Residential Real Estate		Residential Real Estate Development		Commercial Real Estate		Total	
	Balance	#	Balance	#	Balance	#	Balance	#
Balance at June 30, 2008	\$ 2,506	9	\$ 4,683	9	\$ 2,044	3	\$ 9,233	21
Transfers at fair value	5,734	5	741	2	1,358	4	7,833	11
Fair value adjustments	(66)		(100)				(166)	
Resolved	(473)	(2)	(3,112)	(5)	(792)	(1)	(4,377)	(8)
<b>Balance at September 30, 2008</b>	<b>\$ 7,701</b>	<b>12</b>	<b>\$ 2,212</b>	<b>6</b>	<b>\$ 2,610</b>	<b>6</b>	<b>\$ 12,523</b>	<b>24</b>
Balance at December 31, 2007							\$ 3,858	
Balance at September 30, 2007							\$ 1,834	

# = number of individual properties



**Table of Contents**

*Credit Quality Review Procedures*

The Company utilizes a loan rating system to assign risk to loans and utilizes that risk rating system to assist in identifying Problem Loan Report loans as a means of reporting non-performing loans and determining the adequacy of the allowance for loan losses. At each scheduled meeting of the Boards of Directors of the Banks and the Wintrust Risk Management Committee, a Problem Loan Report is presented, showing all loans that are non-performing and loans that may warrant additional monitoring. Accordingly, in addition to those loans disclosed under Past Due and Non-performing Loans, there are certain loans in the portfolio which management has identified, through its Problem Loan Report, which exhibit a higher than normal credit risk. However, these loans are still performing and, accordingly, are not included in non-performing loans. Management's philosophy is to be proactive and conservative in assigning risk ratings to loans and identifying loans to be on the Problem Loan Report. The principal amount of loans on the Company's Problem Loan Report (exclusive of those loans reported as non-performing) as of September 30, 2008, June 30, 2008, and September 30, 2007 totaled \$198.9 million, \$168.6 million and \$140.7 million, respectively. The increase from September 30, 2007 and June 30, 2008 to September 30, 2008 is primarily a result of Problem Loan Report credits in the commercial and commercial real estate category. These loans are currently performing.

**LIQUIDITY**

Wintrust manages the liquidity position of its banking operations to ensure that sufficient funds are available to meet customers' needs for loans and deposit withdrawals. The liquidity to meet these demands is provided by maturing assets, liquid assets that can be converted to cash and the ability to attract funds from external sources. Liquid assets refer to money market assets such as Federal funds sold and interest bearing deposits with banks, as well as available-for-sale debt securities which are not pledged to secure public funds. The Company believes that it has sufficient funds and access to funds to meet its working capital and other needs.

Please refer to the Interest-Earning Assets, Deposits, Other Funding Sources and Shareholders' Equity discussions of this report for additional information regarding the Company's liquidity position.

**INFLATION**

A banking organization's assets and liabilities are primarily monetary. Changes in the rate of inflation do not have as great an impact on the financial condition of a bank as do changes in interest rates. Moreover, interest rates do not necessarily change at the same percentage as inflation. Accordingly, changes in inflation are not expected to have a material impact on the Company. An analysis of the Company's asset and liability structure provides the best indication of how the organization is positioned to respond to changing interest rates. See Quantitative and Qualitative Disclosures About Market Risks section of this report for additional information.



**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of federal securities laws. Forward-looking information in this document can be identified through the use of words such as may, will, intend, plan, project, expect, anticipate, should, would, believe, estimate, contemplate, possible, and point. Forward-looking information are not historical facts, are premised on many factors, and represent only management's expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include, but are not limited to, those listed below and the Risk Factors discussed in Item 1A on page 115 of the Company's 2007 Annual Report. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Such forward-looking statements may be deemed to include, among other things, statements relating to the Company's projected growth, anticipated improvements in earnings, earnings per share and other financial performance measures, and management's long-term performance goals, as well as statements relating to the anticipated effects on financial results of condition from expected developments or events, the Company's business and growth strategies, including anticipated internal growth, plans to form additional *de novo* banks and to open new branch offices, and to pursue additional potential development or acquisitions of banks, wealth management entities or specialty finance businesses. Actual results could differ materially from those addressed in the forward-looking statements as a result of numerous factors, including the following:

Competitive pressures in the financial services business which may affect the pricing of the Company's loan and deposit products as well as its services (including wealth management services).

Changes in the interest rate environment, which may influence, among other things, the growth of loans and deposits, the quality of the Company's loan portfolio, the pricing of loans and deposits and net interest income.

The extent of defaults and losses on our loan portfolio.

Unexpected difficulties or unanticipated developments related to the Company's strategy of *de novo* bank formations and openings. *De novo* banks typically require 13 to 24 months of operations before becoming profitable, due to the impact of organizational and overhead expenses, the startup phase of generating deposits and the time lag typically involved in redeploying deposits into attractively priced loans and other higher yielding earning assets.

The ability of the Company to obtain liquidity and income from the sale of premium finance receivables in the future and the unique collection and delinquency risks associated with such loans.

Failure to identify and complete acquisitions in the future or unexpected difficulties or unanticipated developments related to the integration of acquired entities with the Company.

Legislative or regulatory changes or actions, or significant litigation involving the Company.

Changes in general economic conditions in the markets in which the Company operates.

The ability of the Company to receive dividends from its subsidiaries.

The loss of customers as a result of technological changes allowing consumers to complete their financial transactions without the use of a bank.

The ability of the Company to attract and retain senior management experienced in the banking and financial services industries.

Therefore, there can be no assurances that future actual results will correspond to these forward-looking statements. The reader is cautioned not to place undue reliance on any forward-looking statement made by or on behalf of Wintrust. Any such statement speaks only as of the date the statement was made or as of such date that may be referenced within the statement. Wintrust does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Persons are advised, however, to consult any further disclosures management makes on related subjects in its reports filed with the SEC and in its press releases.

Table of Contents**ITEM 3****QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

As an ongoing part of its financial strategy, the Company attempts to manage the impact of fluctuations in market interest rates on net interest income. This effort entails providing a reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield. Asset-liability management policies are established and monitored by management in conjunction with the boards of directors of the Banks, subject to general oversight by the Risk Management Committee of the Company's Board of Directors. The policies establish guidelines for acceptable limits on the sensitivity of the market value of assets and liabilities to changes in interest rates.

Interest rate risk arises when the maturity or repricing periods and interest rate indices of the interest earning assets, interest bearing liabilities, and derivative financial instruments are different. It is the risk that changes in the level of market interest rates will result in disproportionate changes in the value of, and the net earnings generated from, the Company's interest earning assets, interest bearing liabilities and derivative financial instruments. The Company continuously monitors not only the organization's current net interest margin, but also the historical trends of these margins. In addition, management attempts to identify potential adverse changes in net interest income in future years as a result interest rate fluctuations by performing simulation analysis of various interest rate environments. If a potential adverse change in net interest margin and/or net income is identified, management would take appropriate actions with its asset-liability structure to mitigate these potentially adverse situations. Please refer to Item 2

Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of the net interest margin.

Since the Company's primary source of interest bearing liabilities is from customer deposits, the Company's ability to manage the types and terms of such deposits may be somewhat limited by customer preferences and local competition in the market areas in which the Banks operate. The rates, terms and interest rate indices of the Company's interest earning assets result primarily from the Company's strategy of investing in loans and securities that permit the Company to limit its exposure to interest rate risk, together with credit risk, while at the same time achieving an acceptable interest rate spread.

The Company's exposure to interest rate risk is reviewed on a regular basis by management and the Risk Management Committees of the boards of directors of the Banks and the Company. The objective is to measure the effect on net income and to adjust balance sheet and derivative financial instruments to minimize the inherent risk while at the same time maximize net interest income.

Management measures its exposure to changes in interest rates using many different interest rate scenarios. One interest rate scenario utilized is to measure the percentage change in net interest income assuming a ramped increase and decrease of 100 and 200 basis points that occurs in equal steps over a twelve-month time horizon. Utilizing this measurement concept, the interest rate risk of the Company, expressed as a percentage change in net interest income over a one-year time horizon due to changes in interest rates, at September 30, 2008, December 31, 2007 and September 30, 2007, is as follows:

	+ 200 Basis Points	+ 100 Basis Points	- 100 Basis Points	- 200 Basis Points
--	--------------------------	--------------------------	--------------------------	--------------------------

Percentage change in net interest income due to a ramped 100 and 200 basis point shift in the yield curve:

<b>September 30, 2008</b>	<b>6.5%</b>	<b>3.2%</b>	<b>(3.5)%</b>	<b>(7.0)%</b>
December 31, 2007	6.1%	3.1%	(2.9)%	(6.3)%
September 30, 2007	5.2%	2.8%	(3.2)%	(5.0)%

This simulation analysis is based upon actual cash flows and repricing characteristics for balance sheet instruments and incorporates management's projections of the future volume and pricing of each of the product lines offered by the

Company as well as other pertinent assumptions. Actual results may differ from these simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

**Table of Contents**

One method utilized by financial institutions to manage interest rate risk is to enter into derivative financial instruments. A derivative financial instrument includes interest rate swaps, interest rate caps and floors, futures, forwards, option contracts and other financial instruments with similar characteristics. Additionally, the Company enters into commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors. See Note 10 of the Financial Statements presented under Item 1 of this report for further information on the Company's derivative financial instruments.

During the first nine months of 2008, the Company also entered into certain covered call option transactions related to certain securities held by the Company. The Company uses these option transactions (rather than entering into other derivative interest rate contracts, such as interest rate floors) to increase the total return associated with the related securities. Although the revenue received from these options is recorded as non-interest income rather than interest income, the increased return attributable to the related securities from these options contributes to the Company's overall profitability. The Company's exposure to interest rate risk may be impacted by these transactions. To mitigate this risk, the Company may acquire fixed rate term debt or use financial derivative instruments. There were no covered call options outstanding as of September 30, 2008.

**Table of Contents**

**ITEM 4**  
**CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer carried out an evaluation under their supervision, with the participation of other members of management as they deemed appropriate, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as contemplated by Exchange Act Rule 13a-15. Based upon, and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, in all material respects, in timely alerting them to material information relating to the Company (and its consolidated subsidiaries) required to be included in the periodic reports the Company is required to file and submit to the SEC under the Exchange Act.

There were no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**PART II Other Information**

**Item 1A: Risk factors**

The following risks and uncertainties should be considered in addition to those risk factors set forth under Part I, Item 1A Risk Factors in the Company's Form 10-K for the fiscal year ended December 31, 2007.

**Recent legislative and regulatory initiatives to address difficult market and economic conditions may not restore liquidity and stability to the United States financial system.**

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the EESA). The legislation was designed to address the ongoing financial crisis affecting the financial markets, including financial institutions, and authorizes the U.S. Treasury Department (the Treasury) to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments. The Treasury has allocated \$250 billion towards a Capital Purchase Program whereby the Treasury will purchase equity securities from participating institutions. The government programs also may include direct purchases or guarantees of troubled assets of financial institutions. The purpose of government programs is to restore confidence and stability to the U.S. financial system and to encourage financial institutions to increase their lending to customers and to each other.

The EESA also temporarily increased federal deposit insurance on most deposit accounts from \$100,000 to \$250,000. In addition, the Federal Deposit Insurance Corporation has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction accounts and to guarantee certain unsecured debt of financial institutions and their holding companies.

There can be no assurance as to the actual impact that the EESA, its programs or other regulatory initiatives will have on the financial markets. If the EESA fails to stabilize the financial services industry, our Company may be impacted by failures or defaults by others in the sector. Such difficulties could result in further consolidation in our industry, which could intensify competition for Wintrust. The failure of the EESA to help stabilize the financial markets and the continuation or worsening of current market conditions could materially and adversely impact our business, financial condition and results of operations.

**Difficult market conditions have adversely affected the financial services industry and further negative changes may hurt the value of our collateral and our ability to collect.**

The housing and real estate sectors have been experiencing an extraordinary economic slowdown during 2007 and 2008 causing the values of real estate collateral supporting many loans to decline and which may continue to decline. Market turmoil has led to an increase in delinquencies and has negatively impacted consumer confidence and the level of business activity. Further deterioration in economic conditions may cause increases in delinquencies, problem assets, charge-offs and provisions for credit losses. If these problems escalate, court systems may become less efficient in dealing with increased foreclosure actions.

It is difficult to predict how long these economic conditions will exist, which of our markets, products or other businesses will ultimately be affected, and whether management's actions will effectively mitigate these external factors. If these conditions persist, they will impact our business, financial condition and results of operations.

**Table of Contents****Difficulties experienced by the financial services industry may lead to changes which negatively impact our business and ability to grow.**

Our business is directly affected by market conditions, legislative and regulatory changes, and changes in governmental monetary and fiscal policies and inflation. New or more stringent regulation may result for the disruptions in the marketplace, and Wintrust may face increased regulation of its industry. Compliance with such regulation will likely increase our costs and may limit our ability to pursue business opportunities. In addition, the increased insurance exposure by the FDIC may not be matched with increased payments. As a result, the FDIC insurance fund could be under-funded, and we may experience a significant increase in our FDIC premiums.

**Current levels of market volatility are unprecedented.**

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In many cases, the markets have produced downward pressure on stock prices and credit capacity for certain companies without regard to those companies' underlying financial strength. If current levels of market volatility and disruption continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital, if needed or desired, and on our business, financial condition and results of operations.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**

On April 30, 2007, the Company announced that its Board of Directors authorized the repurchase of up to an additional 1.0 million shares of its outstanding common stock over the next 12 months. All shares authorized to be repurchased pursuant to this authorization were repurchased as of November 2007. In January 2008, the Company's Board of Directors authorized the Company to repurchase up to 1.0 million shares of its outstanding common stock over the next 12 months. No shares were repurchased pursuant to this authorization. Following is a summary of the stock repurchases made during the third quarter of 2008.

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31	1,473	\$ 21.77		1,000,000
August 1 - August 31				1,000,000
September 1 - September 30				1,000,000
Total	1,473	\$ 21.77		1,000,000

All shares repurchased in the third quarter of 2008 were repurchased under the Company's Stock Incentive Plan to satisfy tax withholding obligations associated with restricted share awards.



**Table of Contents**

**Item 6: Exhibits.**

(a) Exhibits

- 4.1 Certificate of Designations of Wintrust Financial Corporation filed on August 26, 2008 with the Secretary of State of the State of Illinois designating the preferences, limitations, voting powers and relative rights of the Series A Preferred Stock (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 2, 2008).
  
- 10.1 Investment Agreement dated as of August 26, 2008 between Wintrust Financial Corporation and CIVC-WTFC LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 2, 2008).
  
- 10.2 Seventh Amendment dated as of August 31, 2008 to Credit Agreement dated as of November 1, 2005, between Wintrust Financial Corporation and LaSalle Bank National Association (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 2, 2008).
  
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of President and Chief Executive Officer and Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**WINTRUST FINANCIAL CORPORATION**

(Registrant)

Date: November 10, 2008

/s/ DAVID L. STOEHR  
David L. Stoehr  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)  
64